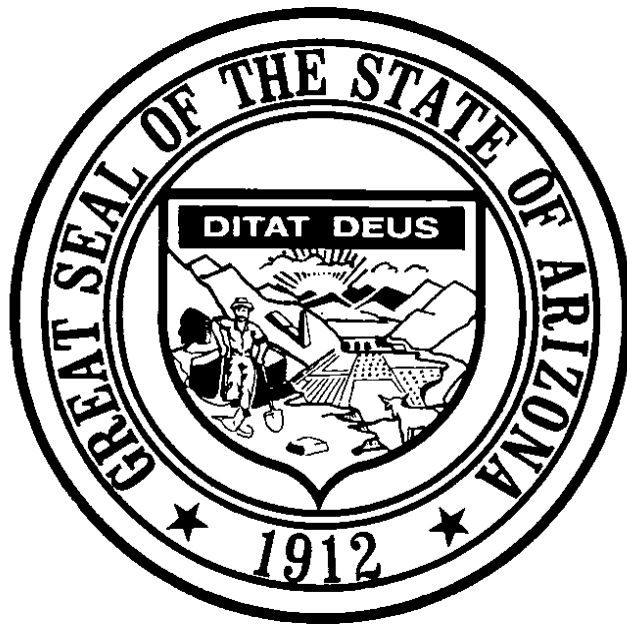


STATE OF ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014



Douglas A. Ducey
GOVERNOR



**PREPARED BY
ARIZONA DEPARTMENT OF ADMINISTRATION
GENERAL ACCOUNTING OFFICE**



STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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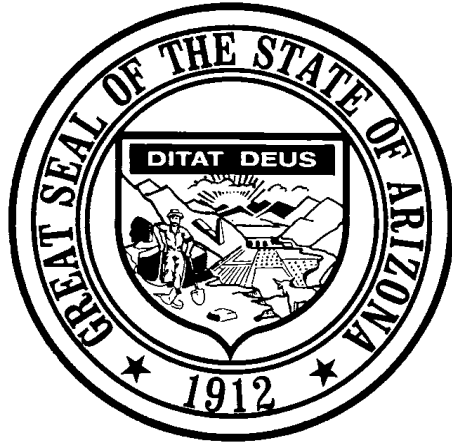
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INTRODUCTORY SECTION

Douglas A. Ducey
Governor



Kathy Peckardt
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE i SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500

March 9, 2015

The Honorable Douglas A. Ducey,
Governor of the State of Arizona;
Members of the Legislature;
Scott Bales, Chief Justice of the Supreme Court;
and Citizens and Taxpayers of the State of Arizona

Ladies and Gentlemen:

It is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arizona for the fiscal year ended June 30, 2014. Responsibility for the accuracy of data, as well as the completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the major and non-major funds of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

U.S. generally accepted accounting principles (GAAP) require that management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the Independent Auditors' Report.

INTERNAL CONTROLS

The State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with U.S. GAAP. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. In the opinion of management, the State's internal controls are adequate to provide reasonable assurance that these objectives are met.

INDEPENDENT AUDIT

In compliance with State statute, an annual financial audit of the financial reporting entity of the State is completed each year by the State of Arizona, Office of the Auditor General in conjunction with other audit firms. Their audit was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Their report on the basic financial statements has been included in the financial section of this report. In addition, A.R.S. § 41-1279.03 requires at least a biennial single audit by the Office of the Auditor General. The Single Audit will be issued as a separate report at a later date.

FINANCIAL REPORTING ENTITY OF THE STATE

The accompanying CAFR includes all funds of the State (primary government), as well as its component units. Blended component units, although legally separate entities, are in substance part of a government's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units are shown separately to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. Discretely presented component units prepared in accordance with the Governmental Accounting Standards Board (GASB) are reported in a separate column in the government-wide financial statements. Discretely presented component units prepared in accordance with the Financial Accounting Standards Board are presented as separate financial statements immediately following the government-wide financial statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by the GASB.

The criteria for inclusion in the financial reporting entity and presentation are defined by the Codification of Governmental Accounting and Financial Reporting Standards, issued by the GASB, (Section 2100). Note 1 of the Notes to the Financial Statements explains which component units are included in the financial reporting entity of the State.

ARIZONA

The State of Arizona was admitted to the Union as the 48th state in 1912. Arizona is the sixth largest state by area, with 113,909 square miles. Arizona is known for the Grand Canyon, one of the Seven Wonders of the World, and its cacti and other desert landscape. A number of national forests, four national parks, eighteen national monuments, and over 20 million acres of Native American reservations and tribal communities are located in Arizona.

PROFILE OF THE GOVERNMENT

The State has three branches of government: Executive, Legislative, and Judicial. The Executive branch is headed by a Governor elected for a four-year term. Arizona's Legislative branch is bicameral, consisting of a thirty-member Senate and a sixty-member House of Representatives. Legislators are elected for two-year terms. The Judicial branch consists of the Arizona Supreme Court, Court of Appeals (with two divisions), Superior Court, justice of the peace courts, and municipal courts. The Superior Court, justice of the peace courts, and municipal courts are excluded from the financial reporting entity of the State as these entities do not meet GASB criteria for inclusion. The Supreme Court is the highest court in the State and is comprised of five justices. Article 6, Section 5 of the Arizona State Constitution describes the types of cases and matters handled by the Supreme Court.

The services provided by the State are administered through various agencies, departments, boards, commissions, councils, administrations, offices, and institutions of higher learning. These services include: (1) General Government, (2) Health and Welfare, (3) Inspection and Regulation, (4) Education, (5) Protection and Safety, (6) Transportation, and (7) Natural Resources.

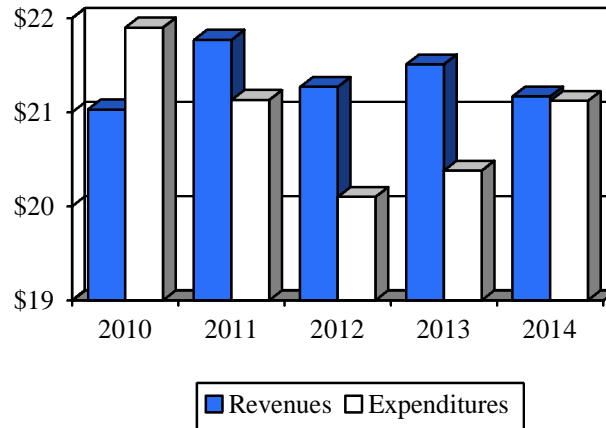
BUDGETARY CONTROLS

Budgetary control is maintained through Legislative appropriation and the Executive branch allotment process. The Governor is required to submit an annual budget to the Legislature. The budget is legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. The appropriated funds are controlled by the Executive branch through an allotment process. This process generally allocates the appropriation into quarterly allotments by legal appropriation level. The State also maintains an encumbrance accounting system to further enhance budgetary control. Encumbered amounts generally lapse as of the end of the fiscal year, with the exception of capital outlay and other continuing appropriations that continue from year to year. The State's budgetary policies are explained in detail in the Required Supplementary Information.

GENERAL FUND BALANCE

Graph 1 summarizes the General Fund revenues and expenditures for the last five fiscal years. This graph does not include transfer amounts relating to other fund types and other financing sources (uses), which affect the ending fund balance.

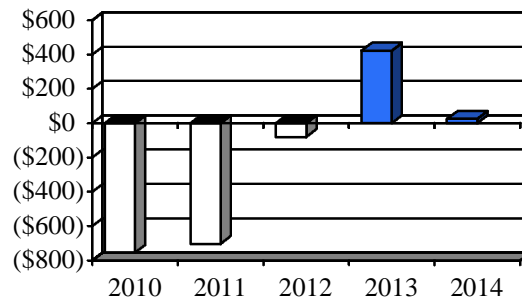
Graph 1
General Fund Revenues and Expenditures
for last 5 fiscal years
(Dollars in billions)



The General Fund ended the June 30, 2014 fiscal year with a total fund balance of \$24.6 million. This compares to the previous year's total fund balance of \$423.2 million.

Graph 2 summarizes the General Fund Balance (Deficit) for the last five fiscal years:

Graph 2
General Fund Balance (Deficit) for last 5 fiscal years
(Dollars in millions)



ECONOMIC CONDITION AND OUTLOOK

The following economic summary is based on the Forecast Report issued by the Office of Employment and Population Statistics (EPS) within the Arizona Department of Administration, for calendar years 2015-2016, released on February 26, 2015.

Overview

The overall employment situation in Arizona continues to improve. This is consistent with improvement seen in many economic indicators including population growth. Compared to 2013, population grew faster in 2014 at 1.31 percent based on the EPS' internal preliminary numbers. Population is projected to grow at 1.65 percent in 2015 and 1.99 percent in 2016. Although Arizona economy continues to have some after effects of various policies that were enacted post-recession (sequestration cuts in 2011 and payroll tax increase in 2013), the major impacts of these policies are behind us and the federal government does not appear to be a strong drag on the economy. Compared to prior recessions, the weak employment recovery is in large part due to lack of new construction. However, the economic fundamentals continue to improve. Both, the U.S. and Arizona's unemployment rate continue to decline. Two economic changes worth noting are the lower oil prices and the rising dollar. The U.S. and Arizona households are expected to receive the benefits of a higher disposable income resulting from lower oil prices. On the negative side, the rising dollar could hurt exports. On the positive side, it is expected to make imports cheaper and help control inflation. A higher dollar effectively transfers demand from the U.S. economy to economies around the world. Economies such as Japan, emerging Asia, and Europe could benefit with a boost to their exports. In the long run, this should lead to a healthier and more balanced global economy.

Arizona's nonfarm employment is forecast for modest growth in 2015 with mild acceleration in 2016. An over-the-year gain of 56,600 nonfarm jobs is expected in 2015 and 63,100 in 2016. In the current forecast, the rate of growth projected for total nonfarm employment is 2.2 percent in 2015 and 2.4 percent in 2016. A total of 119,700 nonfarm jobs are forecast to be gained over the two projected years (2015 and 2016). All eleven major sectors are expected to grow in 2015 and 2016. However, Arizona has historically seen stronger nonfarm employment growth rate than what has been observed in recent years.

The following factors support Arizona's economic growth:

- i Continued improvement in real Gross Domestic Product, real personal income, employment, and retail sales at the state and national levels.
- i Continued private sector employment gains, increasing private domestic investment, increases in the index of industrial production and rate of capacity utilization, high levels of corporate profit, and a gradual resurgence in private residential construction permits. In 2015, the increase in domestic investment spending is anticipated to begin reducing the amounts of accumulated corporate cash holdings.
- i Household net worth and U.S. exports continue to increase.
- i Residential real estate market in Arizona and Phoenix metropolitan area has shown improvement. Home prices have improved but are still way off peak. Increase in the construction of primarily apartments, office buildings, and limited single family homes have been observed. Commercial real estate is gradually improving with lower vacancy rates, higher rental rates and lower rates of default and delinquency in mortgage loans.
- i Growth in non-revolving consumer credit levels have been serving as an impetus to expanding economic activity. Consumer sentiment and consumer spending have improved. Banks are gradually loosening up their lending requirements. Mortgage rates are low. Bank delinquency and default rates on consumer credit are declining.

Some factors that could further dampen the growth of the local economy are given below. However, the positive factors listed above outweigh the uncertainties in the sections described below in support of the EPS' forecast:

- i Despite some increase in disposable income from lower gas prices, constrained budgets persist for a large majority of households. Real median household income in the U.S. and Arizona is below the peak level prior to the 2007 recession.
- i Population growth in the State (1.3 percent in 2014) has been below the growth rate observed historically, limiting the additional demand for goods and services. Arizona's annualized population growth rate for the decade of 1980 was 3.0 percent. This rate increased to 3.4 percent for the decade of the 1990's and then

decreased to 2.2 percent for the first decade of the 21st century. In-migration, both domestic and international to the State has declined over time.

- i Although there has been some improvement in the residential real estate market, up to 20.0 percent of potential buyers are unable to enter the housing market because of negative or low home equity. Reduction in FHA loan limit, higher FICO score requirement, prior home foreclosure or short sales, and millennials living at home has further inhibited potential buyers from entering the housing market.
- i Although real business investment continues to grow, the rate of growth has slowed as a consequence of demand uncertainty. However, the rate of growth of business investment is expected to increase in 2015 and 2016.
- i In the public sector, cuts in the federal, state and local budgets would require spending cuts, tax increases, or a mixture of the two which could slow the growth in aggregate demand in the U.S. and Arizona economy, thus limiting employment growth.
- i Arizona is vulnerable to federal government expenditure changes due to a larger share of military spending in the State's economy. Real federal, civilian, and military expenditures continued to decline in 2014. Operating at a lower level of federal government expenditures is projected to impact some industry sectors more than others: Manufacturing; Retail Trade; Professional and Business Services; and Government.

In addition to the factors aforementioned, there are some grounds for limited optimism and concern on the international front:

- i Although Arizona exports could have a slight stimulating effect with a gradual improvement in the overall world economy, a rising dollar could negatively hurt exports.
- i China's deceleration in growth could impact other regions. China's national economy grew an annual 7.4 percent in 2014, the slowest since 1990. It is unclear as to how China will extricate itself from its debt induced housing bubble and industrial capacity glut.
- i The global economy continues to be in low gear, and hope that the tailwinds of lower oil prices and international monetary stimulus would provide a modest boost to growth this year.

Individual Sectors

The Educational and Health Services sector is forecast to gain 13,800 jobs (3.5 percent) in 2015 and 16,100 jobs (4.0 percent) in 2016 for a total of 29,900 jobs over two years. Increases are expected in all subsectors of Health Care and Social Assistance with the largest projected employment increase in Ambulatory Health Care Services. With the Affordable Care Act (ACA) expansion, both Medicaid and Medicare enrollment has increased. Population growth coupled with state and federal spending associated with the ACA is likely to increase employment growth in these subsectors. Private Educational Services are expected to slow as the economy improves and people re-enter the workforce foregoing higher education and the accumulation of student debt.

The Leisure and Hospitality sector is projected to gain 11,100 jobs (3.9 percent) in 2015 and 12,100 jobs (4.1 percent) in 2016 for a total of 23,200 jobs over two years. The largest projected job gain is expected in the Food Services and Drinking Places sub-sector. Fewer gains are forecast in the sub-sectors of Accommodations and Arts, Entertainment, and Recreation. An improving economy, tourism, and population increases are expected to bolster employment in the Leisure and Hospitality sector.

The Trade, Transportation, and Utilities sector is forecast to gain 10,000 jobs (2.1 percent) in 2015 and 11,100 jobs (2.2 percent) in 2016 for a total of 21,100 jobs over two years. Retail Trade is expected to have the most employment gains with all subsectors forecasting gains. Fewer gains are forecast in Wholesale Trade, Transportation, Warehousing, and Utilities. Utilities is expected to remain flat over the two-year period and Transportation and Warehousing is forecast to gain jobs as a result of overall economic growth.

The Professional and Business Services sector is projected to have an increase of 9,600 jobs (2.5 percent) in 2015 and 8,900 jobs (2.3 percent) in 2016 for a total of 18,500 jobs over two years. The Administrative and Waste Services sub-sectors are expected to have the largest job gains over the projection period which includes Employment Services, Business Support Services, and Services to Buildings and Dwellings. Employment Services growth is expected to slow over the two-year period as firms move away from lower-cost contingent labor to more stable hires with an improving economy. Job gains are forecast in the subsectors of Professional, Scientific, and Technical Services and Management of Companies and Enterprises.

The Financial Activities sector's projected employment growth over the two-year period is expected to slow to an increase of 6,400 jobs (3.3 percent) in 2015 and 5,900 jobs (3.0 percent) in 2016 for a total of 12,400 jobs over two years. Gradual rise in interest rates and a slow growing Construction sector could hinder employment growth in this sector. Securities, Commodities Contracts, Investments, Credit Intermediation and Monetary Authorities, Real Estate, Rental, and Leasing, are forecast to gain jobs with the largest gains projected in Insurance, Funds, and Trusts.

The Manufacturing sector is projected to have an employment increase of 1,600 jobs (1.1 percent) in 2015 and 2,900 jobs (1.8 percent) in 2016 for a total of 4,500 jobs over two years. Growth is forecast in both Durable Goods and Nondurable Goods. Gains in Durable Goods are expected from Fabricated Metal Products and other unreported sectors; Aerospace Products and Parts and Computer and Electronic Products are forecast to shed jobs. The U.S. production index has expanded for eleven consecutive months. New orders index also indicates forward momentum in the economy. However, with Arizona's dependence on defense related industries, staffing levels for defense related manufacturing industries in Arizona are expected to decline due to reduced civilian and military funding.

The Government sector is forecast to have a small gain of 1,300 jobs (0.3 percent) in 2015 and 1,500 jobs (0.4 percent) in 2016 for a total of 2,800 jobs over two years. All subsectors (Federal, State, and Local Government) are expected to have gains over the two-year period. All gains in State and Local Government are expected in Education related subsectors.

The Construction sector is forecast to gain 600 jobs (0.5 percent) in 2015 and 2,200 jobs (1.8 percent) in 2016 for a total of 2,800 jobs over the two years. Heavy Construction is expected to have the largest employment gain. Specialty Trade is expected to increase but could be dampened until housing overall makes a meaningful recovery. Multi-family private residence construction has grown in the State. Home repair and maintenance activities and population growth are factors that support some growth in this sector. Building Construction is the only Construction sub-sector with projected job losses from 2014 to 2016.

The Information sector is projected to have a gain in employment of 400 jobs in both 2015 (0.9 percent) and 2016 (1.0 percent) for a total of 800 jobs over two years. Job gains are forecast in the Telecommunications and Non-Telecommunications sub-sectors of Information.

The Natural Resources and Mining sector is forecast to gain 200 jobs (1.3 percent) in 2015 and 200 jobs (1.8 percent) in 2016 for a total of 400 jobs over two years.

The Other Services sector is forecast to gain 1,600 jobs (1.8 percent) in 2015 and 1,700 jobs (1.9 percent) in 2016 for a total of 3,300 jobs over two years. An improving economy with gradually rising levels of business and consumer spending is forecast to bolster the demand and employment for the services provided by this sector.

MAJOR INITIATIVES

The Major Initiatives for the year ended June 30, 2014, were as follows:

- i The Legislature restored Medicaid eligibility for childless adults and expanded coverage to 133 percent of the federal poverty level in fiscal year 2014. The federal government provides between 85 percent and 100 percent of the cost of the Medicaid restoration, depending on the population, and the remaining cost is funded by an assessment on hospitals. The majority of the Medicaid expansion had been approved by voters in two previous ballot initiatives.
- i Fiscal year 2014 saw approximately \$67 million set aside for several statewide IT projects, including the second year of the four-year project to replace Arizona's financial and accounting system, a new inmate database, a new statewide e-licensing platform, a new student learning and accountability system, and to update tax collection and reporting systems.
- i Arizona State University received \$24 million and Northern Arizona University \$6 million to align their per pupil funding with that of the University of Arizona.
- i Another notable investment in higher education was an increase of \$8 million to University of Arizona Phoenix Medical School to complete the establishment of the 320-student medical school.
- i The fiscal year 2014 budget also included \$5 million to activate 500 medium-security private prison beds to address the State's growing prison population.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arizona for its CAFR for the fiscal year ended June 30, 2013. This was the tenth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each State agency, board, commission, council, administration, office, institution of higher education, and all other organizations within the reporting entity.



Kathy Peckardt
Interim Director



D. Clark Partridge
State Comptroller



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

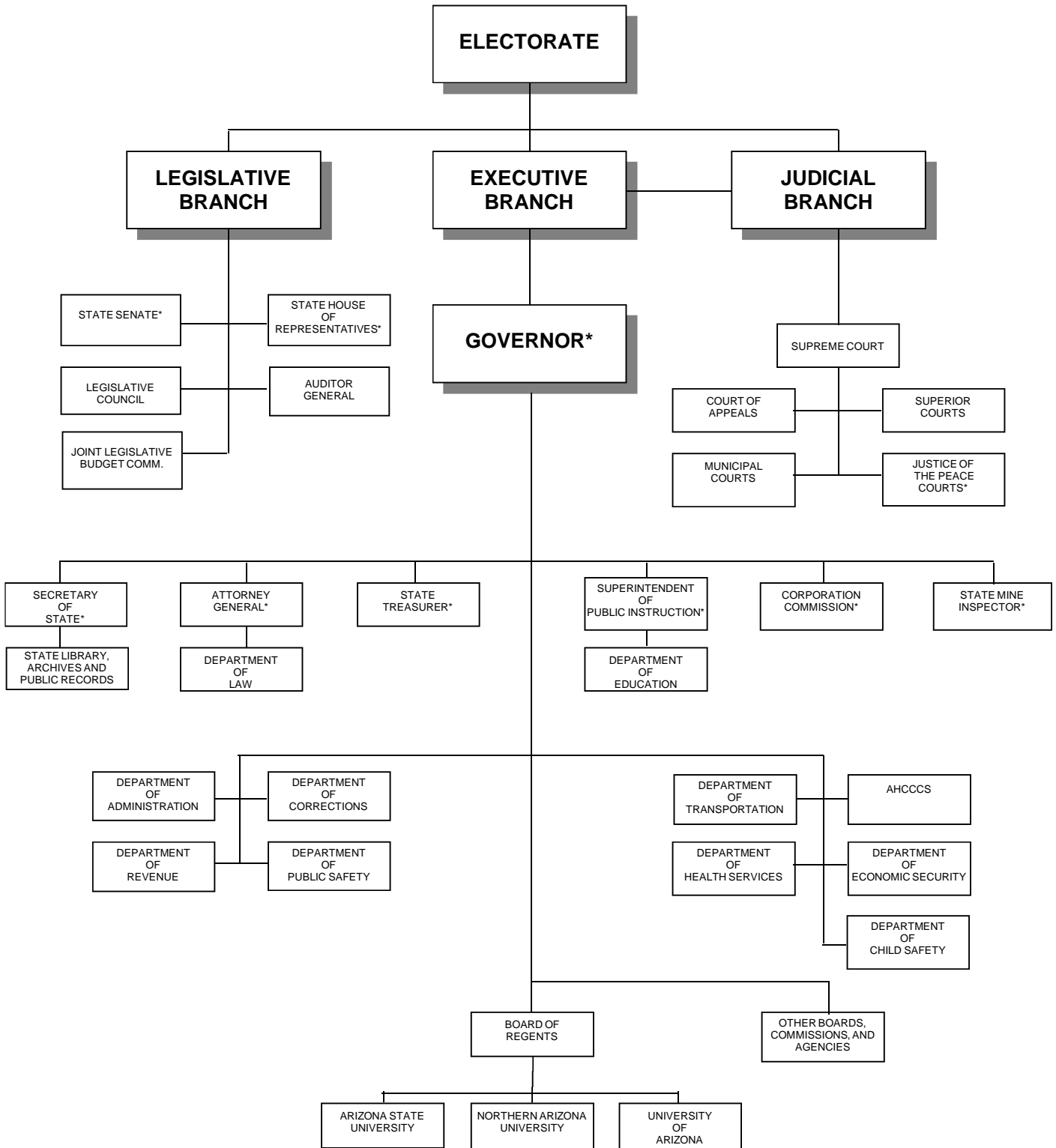
State of Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

ARIZONA STATE GOVERNMENT ORGANIZATION



* ELECTED OFFICIALS

STATE OF ARIZONA
PRINCIPAL STATE OFFICIALS
JUNE 30, 2014

ELECTED OFFICIALS – as of June 30, 2014

Janice K. Brewer, Governor
Senator Andy Biggs, President of the Senate
Representative Andy Tobin, Speaker of the House
Ken Bennett, Secretary of State
Tom Horne, Attorney General
Joe Hart, State Mine Inspector
Douglas A. Ducey, State Treasurer

John Huppenthal, Superintendent of Public Instruction
Bob Stump, Chairman – Corporation Commission
Bob Burns, Commissioner – Corporation Commission
Brenda Burns, Commissioner – Corporation Commission
Gary Pierce, Commissioner – Corporation Commission
Susan Bitter Smith, Commissioner – Corporation
Commission

APPOINTED OFFICIALS – as of June 30, 2014

Executive Officials

Brian C. McNeil, Director – Department of Administration
Charles L. Ryan, Director – Department of Corrections
Clarence H. Carter, Director – Department of Economic
Security
Charles Flanagan, Director – Department of Child Safety
David Raber, Director – Department of Revenue
Robert Halliday, Director – Department of Public Safety
Will Humble, Director – Department of Health Services
Tom Betlach, Director – Arizona Health Care Cost
Containment System
John Halikowski, Director – Department of Transportation

Judicial Officials

Rebecca White Berch, Chief Justice – Supreme Court

Legislative Officials

Michael E. Braun, Executive Director – Legislative Council
Richard Stavneak, Director – Joint Legislative Budget
Committee
Debra K. Davenport, CPA, Auditor General – Office of the
Auditor General

University Officials

Dr. Michael M. Crow, President – Arizona State University
Dr. John D. Haeger, President – Northern Arizona University
Dr. Ann W. Hart, President – University of Arizona

ELECTED OFFICIALS – as of March 9, 2015

Douglas A. Ducey, Governor
Senator Andy Biggs, President of the Senate
Representative David M. Gowan Sr., Speaker of the House
Michele Reagan, Secretary of State
Mark Brnovich, Attorney General
Joe Hart, State Mine Inspector
Jeff DeWit, State Treasurer

Diane Douglas, Superintendent of Public Instruction
Susan Bitter Smith, Chairman – Corporation Commission
Tom Forese, Commissioner – Corporation Commission
Doug Little, Commissioner – Corporation Commission
Bob Stump, Commissioner – Corporation Commission
Bob Burns, Commissioner – Corporation Commission

APPOINTED OFFICIALS – as of March 9, 2015

Executive Officials

Kathy Peckardt, Interim Director – Department of
Administration
Charles L. Ryan, Director – Department of Corrections
Timothy Jeffries, Director – Department of Economic
Security
Greg McKay, Director – Department of Child Safety
David Raber, Director – Department of Revenue
Frank Milstead, Director – Department of Public Safety
Cory Nelson, Interim Director – Department of Health
Services
Tom Betlach, Director – Arizona Health Care Cost
Containment System
John Halikowski, Director – Department of Transportation

Judicial Officials

Scott Bales, Chief Justice – Supreme Court

Legislative Officials

Michael E. Braun, Executive Director – Legislative Council
Richard Stavneak, Director – Joint Legislative Budget
Committee
Debra K. Davenport, CPA, Auditor General – Office of the
Auditor General

University Officials

Dr. Michael M. Crow, President – Arizona State University
Dr. Rita Cheng, President – Northern Arizona University
Dr. Ann W. Hart, President – University of Arizona

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Doug Ducey, Governor
State of Arizona

The Honorable Andy Biggs, President
Arizona State Senate

The Honorable David Gowan, Speaker
Arizona House of Representatives

The Honorable Scott Bales, Chief Justice
Arizona Supreme Court

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments, the State's retirement plans, and the aggregate discretely presented component units, which account for the following percentages of the assets and deferred outflows of resources and revenues, additions, and other financing sources, as applicable, of the opinion units affected:

Opinion Unit/Department	Assets/Deferred Outflows of Resources	Revenues/Additions/ Other Financing Sources
<u>Government-wide Statements</u>		
Governmental activities:		
Arizona Department of Transportation	63.34%	11.08%
Arizona Health Care Cost Containment System	3.45%	18.93%
Early Childhood Development and Health Board	1.21%	0.51%
Business-type activities:		
Arizona Correctional Industries	0.23%	0.68%
Arizona Department of Transportation	1.05%	0.10%

Opinion Unit/Department	Assets/Deferred Outflows of Resources	Revenues/Additions/ Other Financing Sources
Arizona Health Care Cost Containment System	0.09%	0.21%
Arizona State Lottery	0.92%	12.92%
Aggregate discretely presented component units	100.00%	100.00%
<u>Fund Statements</u>		
Major Governmental Funds:		
General Fund—Arizona Health Care Cost Containment System	33.65%	21.08%
Transportation and Aviation Planning, Highway Maintenance and Safety Fund— Arizona Department of Transportation	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Correctional Industries	0.03%	0.27%
Arizona Department of Transportation	0.85%	2.52%
Arizona Health Care Cost Containment System	0.11%	2.02%
Arizona State Lottery	0.13%	5.07%
Arizona State Retirement System	66.56%	55.40%
Corrections Officer Retirement Plan	3.16%	2.32%
Early Childhood Development and Health Board	0.75%	0.94%
Elected Officials' Retirement Plan	0.67%	0.57%
Public Safety Personnel Retirement System	12.36%	9.40%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those departments, retirement plans, and component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Arizona Power Authority, the University of Arizona Health Network and Subsidiaries, and the Universities—Affiliated Component Units, except for those of the ASU Preparatory Academy, Inc., which were reported as discretely presented component units, were not audited by the other auditors in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 21 through 33, the Budgetary Comparison Schedules on pages 131 through 144, the Infrastructure Assets information on pages 145 through 148, and Agent Benefit Plans' Funding Progress on page 149 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund statements and schedules and the introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

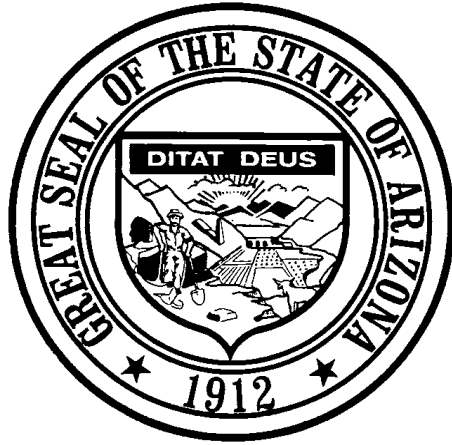
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

March 9, 2015



MANAGEMENT'S
DISCUSSION
AND
ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Arizona's (the State's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

FINANCIAL HIGHLIGHTS

Government-wide:

- i The assets and deferred outflows of resources of the State exceeded liabilities at the close of the fiscal year by \$25.7 billion (reported as net position). Of this amount, a deficit of \$1.4 billion exists for unrestricted net position, \$7.5 billion is restricted for specific purposes (restricted net position), and \$19.6 billion is net investment in capital assets.
- i The State's total net position increased in fiscal year 2014 by \$1.6 billion. Net position of governmental activities increased by \$1.2 billion, while net position of the business-type activities increased by \$361.0 million.

Fund Level:

- i As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$7.3 billion, an increase of \$270.2 million from the beginning of the year. After accounting for non-spendable, restricted, and committed fund balances of \$4.9 billion, \$1.9 billion, and \$814.3 million, respectively, the State's unassigned fund balance had a deficit of \$219.0 million, or (3%) of combined fund balances.
- i As of the close of the fiscal year, unassigned fund balance for the General Fund had a deficit of \$189.2 million, which is approximately (1%) of total General Fund expenditures.
- i The Land Endowments Fund reported fund balance at fiscal year-end of \$4.8 billion, an increase of \$715.1 million during the year. The Land Endowments Fund is used to help finance public education within the State as required by the federal government and the State's Constitution.
- i The enterprise funds reported net position at fiscal year-end of \$3.4 billion, an increase of \$341.4 million during the year.

Long-term Debt:

- i The State's total long-term primary government debt decreased during the fiscal year to \$10.1 billion, a decrease of \$353.9 million or (3%). Changes during the year included the addition of revenue bonds, certificates of participation, and capital leases of \$144.9 million, \$305.8 million, and \$115.8 million, respectively. Also, the State retired \$281.1 million of revenue bonds and \$504.1 million of certificates of participation. Included in the decrease in long-term primary government debt is a decrease in net issuance premiums of \$64.2 million.

More detailed information regarding the government-wide financial statements, fund level financial statements, and long-term debt activity can be found beginning on **page 38**.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Required Supplementary Information and other supplementary information are included in addition to the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State of Arizona's finances in a manner similar to private sector business. The financial statements report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better or worse off as a result of this year's activities? These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements include the following:

The Statement of Net Position (pages 38-39) presents the State's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The total of assets and deferred outflows of resources, minus the total of liabilities and deferred inflows of resources, is reported as net position. Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating.

The Statement of Financial Position (page 40) presents the State's Universities-affiliated component units' assets and liabilities, with the difference between the two reported as net assets.

The Statements of Activities (pages 42-44) present information showing how the State's net position/net assets changed during the most recent fiscal year. All changes in net position/net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Government-wide statements report three activities:

- i *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- i *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The Industrial Commission Special Fund and the State's three universities are examples of business-type activities.
- i *Discretely Presented Component Units* – Component units are legally separate entities for which the State is considered to be financially accountable, or organizations that raise and hold economic resources for the direct benefit of the State. The Water Infrastructure Finance Authority, the University of Arizona Health Network and Subsidiaries, the Arizona Power Authority, the Rio Nuevo Multipurpose Facilities District, the Greater Arizona Development Authority, and the Arizona Commerce Authority are discretely presented component units reported by the State. The State has included component units affiliated with the Universities whose financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP), as adopted by the Financial Accounting Standards Board. These organizations include the Arizona State University Foundation, the University of Arizona Foundation, the Arizona Capital Facilities Finance Corporation, and other non-major component units affiliated with the Universities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by the Governmental Accounting Standards Board (GASB), and include a statement of financial position (**page 40**) and a statement of activities (**page 44**). See **pages 65-69 and 118-128** for more information on discretely presented component units.

Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on **page 45** and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, **page 154** begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – each category uses different accounting approaches.

- i *Governmental funds* – Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the general, special revenue, capital projects, debt service, and permanent funds. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information

presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. This report includes two schedules (**pages 46 and 48-49**) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) reported on the appropriate government-wide statement.

Governmental fund financial statements can be found on pages 45 and 47 of this report.

- i *Proprietary funds* – When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public – such as the Industrial Commission Special Fund and Universities. Internal service funds report activities that provide supplies and services for the State's other programs and activities – such as the State's Risk Management Fund. Internal service fund operations primarily benefit governmental funds and are reported as governmental activities on the government-wide statements. The reconciliation between the government-wide financial statements for business-type activities and the proprietary fund financial statements is presented at the end of the propriety fund financial statements on **pages 51-52**.

Proprietary fund financial statements can be found on pages 50-55 of this report.

- i *Fiduciary funds* – The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on **page 56**. These funds are reported using accrual accounting and include pension and other employee benefit trust, investment trust, and agency funds. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Fiduciary fund financial statements can be found on pages 56-57 of this report.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes can be found beginning on page 65 of this report.

Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary expenditure comparison schedules for the General Fund and each major special revenue fund and a reconciliation of the schedules of statutory and U.S. GAAP expenditures for the fiscal year. This section also includes schedules of condition and maintenance data regarding certain portions of the State's infrastructure and agent benefit plans' funding progress schedules.

Required supplementary information begins on page 131 of this report.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, non-major enterprise, all internal service funds, all fiduciary funds, non-major component units, and non-major universities – affiliated component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as are major funds on the governmental funds and proprietary

funds financial statements. Budgetary expenditure comparison schedules for the non-major special revenue funds and the land endowment funds are also included.

Other supplementary information begins on page 154 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The State's overall financial position and operations for the past year for the primary government are summarized, as follows, based on the information included in the government-wide financial statements.

State of Arizona-Primary Government
Net Position as of June 30, 2014 and 2013
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2014	2013	2014	2013, as restated	2014	2013, as restated
Current assets	\$ 5,746,818	\$ 6,450,486	\$ 1,317,866	\$ 1,358,352	\$ 7,064,684	\$ 7,808,838
Capital assets	21,624,109	20,993,786	4,493,718	4,327,392	26,117,827	25,321,178
Other non-current assets	6,339,643	5,699,132	2,005,169	1,771,658	8,344,812	7,470,790
Total Assets	33,710,570	33,143,404	7,816,753	7,457,402	41,527,323	40,600,806
Deferred outflows of resources	26,361	* 19,945	51,779	58,361	78,140	78,306
Current liabilities	4,598,785	* 4,846,629	694,889	756,253	5,293,674	5,602,882
Non-current liabilities	6,944,022	* 7,318,023	3,704,494	3,651,370	10,648,516	10,969,393
Total Liabilities	11,542,807	12,164,652	4,399,383	4,407,623	15,942,190	16,572,275
Net position:						
Net investment in capital assets	18,027,844	17,410,055	1,581,436	1,524,964	19,609,280	18,935,019
Restricted	6,829,299	6,116,083	660,480	531,972	7,489,779	6,648,055
Unrestricted	(2,663,019)	(2,527,441)	1,227,233	1,051,204	(1,435,786)	(1,476,237)
Total Net Position	\$ 22,194,124	\$ 20,998,697	\$ 3,469,149	\$ 3,108,140	\$ 25,663,273	\$ 24,106,837

* The fiscal year 2013 amounts have been reclassified for comparison with fiscal year 2014 amounts due to the implementation of GASB Statement No. 65.

For the year ended June 30, 2014, the State's combined net position totaled \$25.7 billion, reflecting an increase of \$1.6 billion during the current fiscal year.

The largest portion of the State's net position (77%) represents net investment in capital assets of \$19.6 billion. Additions to roads and bridges provided the majority of the governmental activities increase in net investment in capital assets of \$617.8 million. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt are planned to be provided from other sources, since the capital assets themselves are not typically used to liquidate these liabilities.

The State's net position also included \$7.5 billion (29%) of resources that are subject to external restrictions on how they may be used. The governmental activities increase in restricted net position of \$713.2 million is primarily the result of an increase of \$723.4 million in the amount restricted by the State's Constitution for basic education funded by the Land Endowments Fund.

After accounting for the above net position restrictions, the State has a remaining deficit of \$1.4 billion (6%) reported as unrestricted net position.

More detailed information regarding beginning net position restatements is on page 112.

State of Arizona-Primary Government
Changes in Net Position for Fiscal Years June 30, 2014 and 2013
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2014	2013	2014	2013, as restated	2014	2013, as restated
Revenues:						
Program revenues:						
Charges for services	\$ 936,923	\$ 850,869	\$ 3,381,353	\$ 3,181,812	\$ 4,318,276	\$ 4,032,681
Operating grants and contributions	12,172,836	11,588,834	1,343,922	1,570,854	13,516,758	13,159,688
Capital grants and contributions	546,680	651,999	41,250	15,210	587,930	667,209
General revenues:						
Sales taxes	5,948,055	6,518,480	63,669	57,490	6,011,724	6,575,970
Income taxes	3,963,197	3,974,998	-	-	3,963,197	3,974,998
Tobacco taxes	314,313	316,050	-	-	314,313	316,050
Property taxes	41,215	27,429	-	-	41,215	27,429
Motor vehicle and fuel taxes	1,650,579	1,592,911	-	-	1,650,579	1,592,911
Other taxes	547,481	531,186	-	-	547,481	531,186
Unrestricted investment earnings	79,215	18,705	108,296	62,017	187,511	80,722
Unrestricted grants and contributions	37,926	45,746	107	5	38,033	45,751
Gain on sale of trust land	83,695	174,095	-	-	83,695	174,095
Miscellaneous revenue	176,035	144,403	78,837	148,743	254,872	293,146
Total Revenues	26,498,150	26,435,705	5,017,434	5,036,131	31,515,584	31,471,836
Expenses:						
General government	763,830	836,431	-	-	763,830	836,431
Health and welfare	12,768,332	12,168,426	-	-	12,768,332	12,168,426
Inspection and regulation	160,797	161,480	-	-	160,797	161,480
Education	5,573,656	5,372,267	-	-	5,573,656	5,372,267
Protection and safety	1,408,049	1,400,413	-	-	1,408,049	1,400,413
Transportation	791,006	754,510	-	-	791,006	754,510
Natural resources	200,868	204,179	-	-	200,868	204,179
Intergovernmental revenue sharing	2,778,299	2,685,378	-	-	2,778,299	2,685,378
Interest on long-term debt	279,525	355,975	-	-	279,525	355,975
Universities	-	-	4,078,053	3,888,145	4,078,053	3,888,145
Industrial Commission Special Fund	-	-	36,895	38,614	36,895	38,614
Other business-type activities	-	-	1,130,299	1,329,816	1,130,299	1,329,816
Total Expenses	24,724,362	23,939,059	5,245,247	5,256,575	29,969,609	29,195,634
Excess (deficiency) before contributions, extraordinary item, and transfers	1,773,788	2,496,646	(227,813)	(220,444)	1,545,975	2,276,202
Contributions to permanent endowments	-	-	6,561	3,192	6,561	3,192
Extraordinary item:						
Insurance recovery	-	-	3,900	-	3,900	-
Transfers	(578,361)	(534,722)	578,361	534,722	-	-
Change in Net Position	1,195,427	1,961,924	361,009	317,470	1,556,436	2,279,394
Net Position - Beginning, as restated	20,998,697	19,036,773	3,108,140	2,790,670	24,106,837	21,827,443
Net Position - Ending	\$ 22,194,124	\$ 20,998,697	\$ 3,469,149	\$ 3,108,140	\$ 25,663,273	\$ 24,106,837

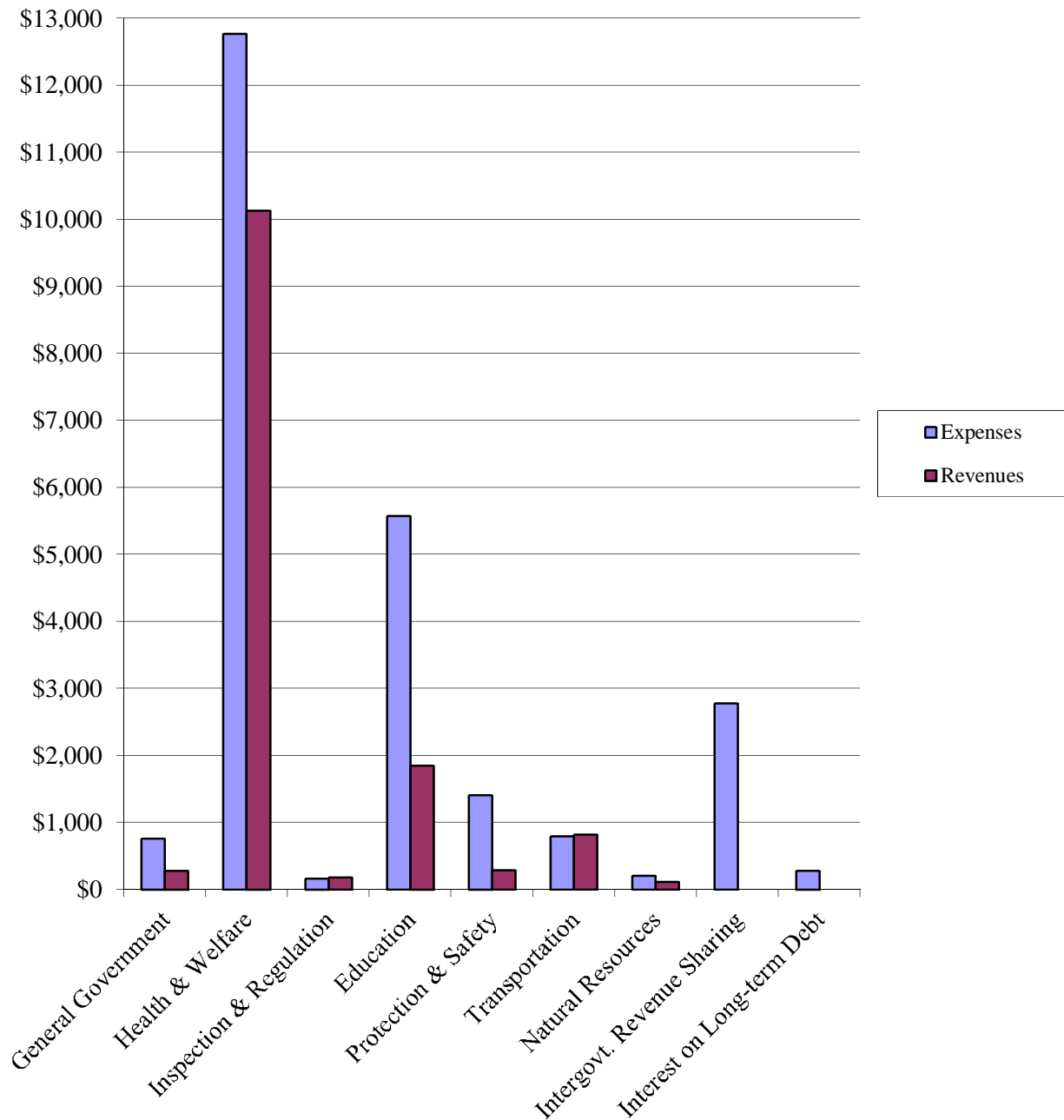
Change in Net Position

Governmental Activities – Net Position increased by \$1.2 billion from fiscal year 2013, or a 6% increase from fiscal year 2013. Although net position increased, the amount of the increase was not as large as the prior fiscal year increase of \$2.0 billion. Reported sales tax revenues decreased by \$570.4 million, or 9%, from fiscal year 2013. The decrease in sales tax collections reflects the expiration of the 1% additional sales tax in May 2013. This decrease was partially offset by an increase in net taxable sales of approximately 6% from fiscal year 2013. The largest increases in net taxable sales during fiscal year 2014 were in retail sales, restaurants and bars, and contracting. During fiscal year 2014, operating grants and contributions increased by \$584.0 million (5%) over fiscal year 2013. This increase primarily results from enhanced federal financial participation matching rates for increased enrollment in Arizona Health Care Cost Containment System (AHCCCS) programs due to implementation of the Patient Protection and Affordable Care Act of 2010 (ACA) beginning January 1, 2014. AHCCCS experienced an increase of 190,040 members (14.4%) over fiscal year 2013 as a result of ACA expansion and the simultaneous ending of the Childless Adult program enrollment freeze beginning January 1, 2014. Operating grants and contributions also increased because the fair market value of the Permanent Fund investment portfolio increased during fiscal year 2014. Furthermore, there were increases in health and welfare and education expenses of \$599.9 million and \$201.4 million, respectively. The increase in health and welfare expenses resulted primarily from the implementation of the ACA by AHCCCS, as discussed above. The increase in education expense generally reflects increases in Department of Education's expenses due to increased enrollment growth and inflation.

A comparison of the net cost (income) of services by function for the State's governmental activities is shown below for fiscal years 2013 and 2014. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

	Governmental Activities (expressed in thousands)			
	Total Cost of Services		Net Cost (Income) of Services	
	2014	2013	2014	2013
Functions/Programs:				
General government	\$ 763,830	\$ 836,431	\$ 482,170	\$ 510,822
Health and welfare	12,768,332	12,168,426	2,640,807	2,623,946
Inspection and regulation	160,797	161,480	(17,184)	(14,964)
Education	5,573,656	5,372,267	3,723,347	3,602,369
Protection and safety	1,408,049	1,400,413	1,121,604	1,174,681
Transportation	791,006	754,510	(26,646)	(185,586)
Natural resources	200,868	204,179	86,001	94,736
Intergovernmental revenue sharing	2,778,299	2,685,378	2,778,299	2,685,378
Interest on long-term debt	279,525	355,975	279,525	355,975
Total Governmental Activities	<u>\$ 24,724,362</u>	<u>\$ 23,939,059</u>	<u>\$ 11,067,923</u>	<u>\$ 10,847,357</u>

**Expenses and Program Revenues
Governmental Activities for Fiscal Year 2014
(in millions of dollars)**



Business-type Activities – Net Position increased by \$361.0 million from fiscal year 2013, or 12%. This increase is primarily due to increases in net position for the Universities and the Unemployment Compensation Fund of \$186.7 million and \$90.3 million, respectively. Non-operating revenues and transfers from the General Fund more than offset the Universities’ operating loss of \$1.2 billion. The Universities’ operating revenues increased by \$118.9 million over

fiscal year 2013 primarily due to approved student tuition and fee increases, increased enrollment, and increased auxiliary enterprise revenues. Also, State appropriation transfers to the Universities from the General Fund increased by \$38.1 million over fiscal year 2013. This increase resulted primarily from increased parity funding to the Arizona State University and additional appropriations for expansion of the University of Arizona College of Medicine-Phoenix Campus. These increases were offset by increases in expenses for instruction, academic support, and scholarships and fellowships. Also, the Unemployment Compensation Fund's cost of sales and benefits and intergovernmental revenue decreased \$220.2 million and \$185.7 million, respectively, as compared to the prior fiscal year.

A comparison of the net cost (income) of services by function for the State's business-type activities is shown below for fiscal years 2013 and 2014. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

	Business-type Activities (expressed in thousands)			
	Total Cost of Services		Net Cost (Income) of Services	
	2014	2013, as restated	2014	2013, as restated
Functions/Programs:				
Universities	\$ 4,078,053	\$ 3,888,145	\$ 722,356	\$ 679,497
Industrial Commission				
Special Fund	36,895	38,614	8,434	13,453
Other	1,130,299	1,329,816	(252,068)	(204,251)
Total Business-type Activities	<u>\$ 5,245,247</u>	<u>\$ 5,256,575</u>	<u>\$ 478,722</u>	<u>\$ 488,699</u>

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The general government functions are contained in the general, special revenue, debt service, capital projects, and permanent funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The General Fund is the chief operating fund of the State. At June 30, 2014, unassigned fund balance of the General Fund had a deficit of \$189.2 million, while total fund balance closed the year at \$24.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and other financing uses. Unassigned fund balance represents a negative 1% of total expenditures and other financing uses, while total fund balance is less than 1% of the same amount.

The fund balance of the State's General Fund decreased \$398.6 million during the fiscal year. Revenues exceeded expenditures by \$51.9 million, before other financing sources and uses. However, other financing sources and uses more than offset this excess by \$450.5 million which consist primarily of transfers to the Universities in support of higher education, offset by legislative transfers from other funds to the General Fund. Overall revenues decreased by \$339.9 million (2%) and expenditures increased by \$737.8 million (4%) from fiscal year 2013. Primary reasons for decreases in fund balance during the fiscal year are the expiration of the 1% additional sales tax in May 2013, increased health and welfare expenditures, and increased education expenditures. A primary reason for increases in fund balance during the year is increased intergovernmental revenue, including federal funding received as a result of the AHCCCS implementation of the ACA. These increases and decreases were discussed in the government-wide financial analysis beginning on **page 24**.

Transportation and Aviation Planning, Highway Maintenance and Safety Fund

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds and grant anticipation notes, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation (ADOT). Total fund balance increased \$95.2 million during fiscal year 2014. Although revenues exceeded expenditures by \$354.0 million, transfers to non-major governmental funds of \$303.0 million to primarily pay debt service largely offset this excess. Overall revenue remained stable, as compared to the prior fiscal year.

Land Endowments Fund

The Land Endowments Fund was established when the federal government granted Arizona statehood. Both the State's Constitution and the federal government require that the land grants given to the State be maintained indefinitely, and the earnings from the land grants should be used for public education, primarily K-12. The Land Endowments Fund total fund balance increased \$715.1 million during fiscal year 2014. Endowment investments increased \$744.5 million, at fiscal year-end, primarily due to receipts from land sales of \$86.3 million and a net increase in the fair value of investments of \$598.6 million.

Proprietary funds

The business-type activities discussion for the fund level financial statements of the State's enterprise funds provide the same type of information found in the government-wide financial analysis beginning on **page 24**.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Differences between the original budget and the final amended budget resulted in a \$1.6 billion net increase in appropriations for the General Fund, before adjustments. Some of the significant changes in the General Fund appropriations were:

1. \$311.3 million increase due to prior fiscal year obligations that were paid in the current fiscal year per A.R.S. § 35-191.
2. \$727.0 million increase to the AHCCCS' original budget is primarily due to supplemental appropriation increases for payments to specified hospitals funded by voluntary intergovernmental agreements with political subdivisions and to fund payments for the Medicaid restoration and ACA expansion populations.
3. \$234.0 million increase to the Universities' original budget is primarily due to payment deferrals from fiscal year 2013, which were budgeted in fiscal year 2014, and for lease purchase capital financing for research infrastructure facilities.
4. \$169.4 million increase to the Department of Health Services' original budget is primarily due a supplemental appropriation increase for Title XIX.
5. \$47.5 million increase to the Department of Education's original budget is primarily due to a supplemental appropriation increase for basic State aid entitlement.
6. \$46.0 million increase to the Department of Economic Security's original budget is primarily due to payment deferrals from fiscal year 2013, which were appropriated as a supplemental appropriation in the fiscal year 2014 budget.

The actual expenditures were less than the final budget by \$1.2 billion, after adjustments. Of this amount, \$65.8 million will continue as legislative multiple fiscal year spending authority for fiscal years 2015 and beyond, depending upon the budgetary guidelines of the Legislature. The remaining \$1.1 billion represents the unused portion of the State's legislatively authorized annual operating budget.

Additional budgetary information can be found on pages 131-144 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets:

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2014 totaled \$26.1 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 3%, with a 3% increase in capital assets used for governmental activities and a 4% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled \$392.1 million.

Major capital asset activity during the current fiscal year included the following:

- i The Universities' additions to capital assets totaled \$487.6 million and included increased investments in buildings for instruction and research, building renewal, and other capital projects.
- i The ADOT started or completed roads and bridges totaling \$1.4 billion during the fiscal year.

For the government-wide financial statement presentation, all depreciable assets were depreciated from the acquisition date to the end of the current fiscal year. Capital asset purchases of the governmental funds are reported in the fund-level financial statements as expenditures.

Capital assets for the governmental and business-type activities as of June 30, 2014 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013, as restated	2014	2013, as restated
Land	\$ 3,046,110	\$ 2,967,822	\$ 229,637	\$ 210,037	\$ 3,275,747	\$ 3,177,859
Buildings	2,315,821	2,161,715	5,321,874	5,027,319	7,637,695	7,189,034
Improvements other than buildings	172,687	159,899	5,727	4,853	178,414	164,752
Equipment	826,478	811,035	1,553,841	1,505,988	2,380,319	2,317,023
Software and other intangibles	251,407	* 219,616	125,957	120,736	377,364	340,352
Collections (non-depreciable)	-	-	20,114	19,738	20,114	19,738
Infrastructure	13,801,205	12,973,088	478,015	460,711	14,279,220	13,433,799
Construction in progress	2,916,383	3,369,060	299,160	288,755	3,215,543	3,657,815
Development in progress	58,567	* 27,155	-	-	58,567	27,155
Less: accumulated depreciation	(1,764,549)	(1,695,604)	(3,540,607)	(3,310,745)	(5,305,156)	(5,006,349)
Total	<u>\$ 21,624,109</u>	<u>\$ 20,993,786</u>	<u>\$ 4,493,718</u>	<u>\$ 4,327,392</u>	<u>\$ 26,117,827</u>	<u>\$ 25,321,178</u>

* The fiscal year 2013 amounts have been reclassified for comparison with fiscal year 2014 amounts.

As provided by GASB Statement No. 34, the State has elected to record its infrastructure assets, which the ADOT is responsible for maintaining, using the modified approach as described in Note 1G. Assets accounted for under the modified approach include 6,800 center lane miles of roads (21,390 travel lane miles) and 4,787 bridges.

The State manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The State's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.69 was achieved for fiscal year 2014.

The State manages its bridges using the Arizona Bridge Information and Storage System. The State determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the State to maintain a Condition Rating Index (CRI) of 92.5% or better. In fiscal year 2014, a CRI of 93.8% was achieved.

In addition to many smaller projects, each of the following major highway construction projects in excess of \$10.0 million were started during fiscal year 2014 (expressed in thousands):

Description	Contract Start Date	Contract Amount	Current Year Expenditures
Capacity additions-major widening at US 93 at Antelope Wash	12/8/2013	\$ 19,395	\$ 4,562
Capacity additions-major widening on Interstate 10 at Perryville Road traffic interchange	11/8/2013	18,798	13,002
System preservation-reconstruction at US 89 and State Route 64, Little Colorado River	10/11/2013	36,669	7,103
System preservation-reconstruction at Deep Well Ranch Road at South Chino Valley limits	2/14/2014	17,358	3,529
System preservation-restoration/rehab/resurface at Rattlesnake Wash at Junction 93	4/11/2014	11,249	1,113
Capacity additions-reconstruction on State Route 101L at Maryland Avenue HOV ramps	9/13/2013	11,725	11,697
Capacity additions (major bridge rehabilitation) on Interstate 15 Virgin River Bridge, structure #1619	1/17/2014	27,183	7,463

Furthermore, the following major highway construction projects had expenditures in excess of \$15.0 million in fiscal year 2014. These project expenditures include payments made to construction contractors (as shown below) as well as utility, design, right-of-way, and landscaping costs (expressed in thousands):

Location Description	Contract Start Date	Project Expenditures
State Route 202L; Santan to Ellsworth Road in Maricopa County	2/17/2012	\$ 65,400
Traffic Interchange between Interstate 10 and State Route 303L in Maricopa County	9/16/2011	47,281
State Route 303L; Camelback Road to Glendale Avenue in Maricopa County	2/8/2013	30,917
Salt River to Baseline Road in Maricopa County	NA	23,528
Ruthrauff to Prince Road in Pima County	7/15/2011	22,578
Interstate 10; Sarival to State Route 101L in Maricopa County	12/24/2007	18,900
US 89 to State Route 98 in Coconino County	5/9/2013	18,371
Interstate 10; Perryville Road traffic interchange in Maricopa County	11/8/2013	15,384

More detailed information regarding capital assets is on pages 92 and 93.

Long-term debt:

The State issues no general obligation debt instruments. The Arizona Constitution, under Article 9, Section 5, provides that the State may contract debts not to exceed \$350 thousand. This provision has been interpreted to restrict the State from pledging its credit as a sole payment for debts incurred for the operation of the State government. As a result, the State pledges either dedicated revenue streams or the constructed building or equipment acquired as security for the repayment of long-term debt instruments.

Major long-term debt activity during the current fiscal year included the following:

- i The School Facilities Board issued certificates of participation totaling \$305.7 million to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.
- i The Universities issued revenue bonds for \$144.9 million to fund the acquisition, construction, or renovation of capital facilities and infrastructure, and to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.
- i The State entered into lease-purchase contracts totaling \$115.8 million primarily to acquire the Department of Corrections' Red Rock facility.

State of Arizona-Primary Government
Outstanding Major Long-Term Debt as of June 30, 2014
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue bonds	\$ 3,406,195	\$ 3,606,720	\$ 2,302,035	\$ 2,237,710	\$ 5,708,230	\$ 5,844,430
Grant anticipation notes	247,710	296,240	-	-	247,710	296,240
Certificates of participation	2,200,675	2,360,595	676,345	714,735	2,877,020	3,075,330
Capital leases	449,209	360,316	132,957	135,519	582,166	495,835
Total	<u>\$ 6,303,789</u>	<u>\$ 6,623,871</u>	<u>\$ 3,111,337</u>	<u>\$ 3,087,964</u>	<u>\$ 9,415,126</u>	<u>\$ 9,711,835</u>

More detailed information regarding long-term debt begins on page 99.

ECONOMIC CONDITION AND OUTLOOK

The Office of Employment and Population Statistics within the Department of Administration is forecasting the State to gain a projected 119,700 nonfarm jobs, representing a growth rate of 4.6%, over the two projected calendar years of 2015 and 2016. An over-the-year gain of 56,600 jobs is projected in 2015 and 63,100 jobs in 2016. The rate of growth projected for nonfarm employment is 2.2% in 2015 and 2.4% in 2016. Arizona's nonfarm employment is forecast for modest growth in 2015 with mild acceleration in 2016. This is consistent with improvements seen in many economic indicators.

The State's fiscal year 2015 General Fund budget reflects projected growth in base revenues of 5.3%. The net ongoing revenues are projected to decrease from \$9.5 billion in fiscal year 2014 to \$9.4 billion in fiscal year 2015. General Fund spending is projected to increase from \$8.9 billion in fiscal year 2014 to \$9.3 billion in fiscal year 2015. The budget includes increased spending for the Department of Education K-12 formula changes (which includes statutorily-mandated inflation increase of 1.4%) and the Department of Child Safety for new caseworkers, Office of Child Welfare Investigations, and to eliminate a backlog of inactive cases. The General Fund fiscal year 2015 ending balance is projected to be \$130 million.

Legislative discussions on the fiscal year 2015 General Fund budget also included analyzing the impact of budget decisions on estimated fiscal year 2016 and 2017 spending.

The fiscal year 2016 General Fund budget is forecasted to have revenues of \$9.2 billion and expenditures of \$9.4 billion, with a \$221 million shortfall. After accounting for legislation enacted separately from the budget and technical adjustments, the fiscal year 2016 shortfall is estimated to be \$237 million. The spending includes statutory formula caseload growth. The fiscal year 2016 ongoing revenues are primarily based on a 4-sector consensus growth rate of 5.2%, but also incorporate separately enacted tax law changes.

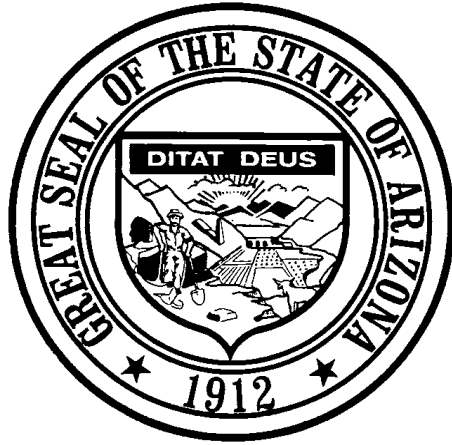
The fiscal year 2017 General Fund budget is forecasted to have revenues of \$9.2 billion and expenditures of \$9.7 billion, with a \$477 million shortfall. After accounting for legislation enacted separately from the budget and technical adjustments, the fiscal year 2017 balance is estimated to have a \$489 million shortfall, including the fiscal year 2016 estimated \$237 million shortfall. The ongoing spending includes caseload growth. The revenues reflect base growth of 5.6%. Those revenues also incorporate separately enacted tax law changes.

The Budget Stabilization Fund is expected to have a balance of \$459 million at the end of fiscal year 2015, which could be used to offset any shortfall in fiscal year 2016 or 2017.

CONTACTING THE STATE COMPTROLLER'S OFFICE

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Department of Administration, General Accounting Office, Financial Reporting Section at (602) 542-5405. You may also access and print this report at <http://www.gao.az.gov/financials/>.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. Contact information regarding the component units begins on **page 65**.



BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

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STATE OF ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2014
(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
			TOTAL	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT	
ASSETS				
Current Assets:				
Cash	\$ 3,261	\$ 291,291	\$ 294,552	\$ 70,574
Cash with U.S. Treasury	-	8,244	8,244	-
Cash and pooled investments with State Treasurer	2,933,750	71,195	3,004,945	324,568
Restricted cash and pooled investments with State Treasurer	395,099	77,833	472,932	-
Cash held by trustee	-	-	-	11,533
Collateral investment pool	469,947	44,899	514,846	3,488
Short-term investments	-	173,922	173,922	111,290
Restricted investments held by trustee	-	-	-	28,017
Receivables, net of allowances:				
Taxes	423,888	96,088	519,976	2,672
Interest	214,718	2,419	217,137	8,561
Loans and notes	289,144	4,171	293,315	1,673
Patient accounts receivable	-	-	-	161,330
Other	138,316	167,864	306,180	89,703
Internal balances	(250,045)	250,045	-	-
Due from U.S. Government	815,022	86,935	901,957	-
Due from local governments	150,564	-	150,564	-
Due from others	132,680	-	132,680	-
Inventories, at cost	24,830	22,144	46,974	21,171
Other current assets	5,644	20,816	26,460	2,394
Total Current Assets	5,746,818	1,317,866	7,064,684	836,974
Noncurrent Assets:				
Restricted assets:				
Cash	27	23,317	23,344	-
Cash and pooled investments with State Treasurer	1,360,273	-	1,360,273	11,965
Cash held by trustee	27,151	254,390	281,541	17,342
Investments	3,274	-	3,274	153,342
Investments held by trustee	-	81,360	81,360	35,881
Receivables, net of allowances:				
Loans and notes	36,808	33,071	69,879	1,117,445
Other	-	10,411	10,411	7,512
Securities held in escheat	54,087	-	54,087	-
Investments	-	1,155,357	1,155,357	28,280
Endowment investments	4,858,023	429,865	5,287,888	-
Other noncurrent assets	-	17,398	17,398	2,852
Capital assets:				
Infrastructure, land, and other non-depreciable	19,799,389	548,911	20,348,300	39,167
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,824,720	3,944,807	5,769,527	416,149
Total Noncurrent Assets	27,963,752	6,498,887	34,462,639	1,829,935
Total Assets	33,710,570	7,816,753	41,527,323	2,666,909
DEFERRED OUTFLOWS OF RESOURCES	26,361	51,779	78,140	59,699

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2014
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
			TOTAL	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT	COMPONENT UNITS
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 598,034	\$ 149,621	\$ 747,655	\$ 109,782
Payable for securities purchased	-	3,472	3,472	-
Accrued liabilities	1,044,797	67,049	1,111,846	108,693
Obligations under securities loan agreements	469,947	44,899	514,846	3,488
Tax refunds payable	2,442	-	2,442	-
Due to U.S. Government	7,482	13,025	20,507	-
Due to local governments	1,249,019	-	1,249,019	-
Due to others	387,999	72,345	460,344	-
Due to component units	-	260	260	-
Unearned revenue	94,773	173,916	268,689	-
Current portion of accrued insurance losses	59,786	25,501	85,287	9,710
Current portion of long-term debt	509,647	124,308	633,955	84,136
Current portion of other long-term liabilities	174,859	20,493	195,352	30,359
Total Current Liabilities	4,598,785	694,889	5,293,674	346,168
Noncurrent Liabilities:				
Unearned revenue	93,061	-	93,061	2,033
Accrued insurance losses	369,543	458,643	828,186	21,553
Funds held for others	-	47,290	47,290	-
Long-term debt	6,311,872	3,121,442	9,433,314	1,299,065
Derivative instrument - interest rate swap	-	14,135	14,135	-
Other long-term liabilities	169,546	62,984	232,530	4,255
Total Noncurrent Liabilities	6,944,022	3,704,494	10,648,516	1,326,906
Total Liabilities	11,542,807	4,399,383	15,942,190	1,673,074
NET POSITION				
Net investment in capital assets	18,027,844	1,581,436	19,609,280	106,715
Restricted for:				
General government	82,282	-	82,282	-
Health and welfare	70,233	-	70,233	-
Inspection and regulation	5,539	-	5,539	-
Education	496,130	-	496,130	-
Protection and safety	23,447	-	23,447	-
Natural resources	12,706	-	12,706	-
Unemployment Compensation	-	57,585	57,585	-
Capital projects	805,890	17,505	823,395	-
Debt service	3	12,964	12,967	131,510
Permanent funds and University funds:				
Expendable	174,823	274,835	449,658	-
Nonexpendable	5,158,246	219,758	5,378,004	-
Loans and other financial assistance:				
Expendable	-	77,833	77,833	529,164
Other purposes	-	-	-	40,308
Unrestricted (deficit)	(2,663,019)	1,227,233	(1,435,786)	245,837
Total Net Position	\$ 22,194,124	\$ 3,469,149	\$ 25,663,273	\$ 1,053,534

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF FINANCIAL POSITION
 UNIVERSITIES - AFFILIATED COMPONENT UNITS
 JUNE 30, 2014
 (Expressed in Thousands)

ASSETS

Cash and cash equivalent investments	\$	53,867
Receivables:		
Pledges receivable		121,870
Other receivables		23,980
Total receivables		<u>145,850</u>
Investments:		
Investments in securities		1,688,006
Other investments		58,755
Total investments		<u>1,746,761</u>
Net direct financing leases		74,960
Property and equipment, net of accumulated depreciation		324,059
Other assets		<u>56,154</u>
Total Assets		<u>2,401,651</u>

LIABILITIES

Accounts payable and accrued liabilities		35,009
Liability under endowment trust agreements		355,801
Long-term debt		516,021
Deferred revenue		25,964
Other liabilities		<u>52,682</u>
Total Liabilities		<u>985,477</u>

NET ASSETS

Permanently restricted		928,428
Temporarily restricted		464,511
Unrestricted		<u>23,235</u>
Total Net Assets	\$	<u>1,416,174</u>

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA
STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	\$ 763,830	\$ 188,943	\$ 92,717	\$ -
Health and welfare	12,768,332	222,173	9,905,352	-
Inspection and regulation	160,797	157,149	20,832	-
Education	5,573,656	60,981	1,789,328	-
Protection and safety	1,408,049	128,814	157,631	-
Transportation	791,006	113,267	157,705	546,680
Natural resources	200,868	65,596	49,271	-
Intergovernmental revenue sharing	2,778,299	-	-	-
Interest on long-term debt	279,525	-	-	-
Total Governmental Activities	24,724,362	936,923	12,172,836	546,680
Business-type Activities:				
Universities	4,078,053	2,056,307	1,258,140	41,250
Industrial Commission Special Fund	36,895	28,461	-	-
Other	1,130,299	1,296,585	85,782	-
Total Business-type Activities	5,245,247	3,381,353	1,343,922	41,250
Total Primary Government	\$ 29,969,609	\$ 4,318,276	\$ 13,516,758	\$ 587,930
COMPONENT UNITS:				
Water Infrastructure Finance Authority	\$ 41,528	\$ 35,929	\$ 36,371	
University of Arizona Health Network & Subsidiaries	1,364,116	1,295,884	-	
Other Component Units	60,147	29,964	8,072	
Total Component Units	\$ 1,465,791	\$ 1,361,777	\$ 44,443	

General Revenues:

Taxes:

Sales

Income

Tobacco

Property

Motor vehicle and fuel

Other

Unrestricted investment earnings

Unrestricted grants and contributions

Gain on sale of trust land

Payments from State of Arizona

Miscellaneous

Contributions to permanent endowments

Extraordinary Items:

Insurance recovery

Transfers

Total General Revenues, Contributions, Extraordinary Items,
and Transfers

Change in Net Position

Net Position - Beginning, as restated

Net Position - Ending

The Notes to the Financial Statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
\$ (482,170)		\$ (482,170)	
(2,640,807)		(2,640,807)	
17,184		17,184	
(3,723,347)		(3,723,347)	
(1,121,604)		(1,121,604)	
26,646		26,646	
(86,001)		(86,001)	
(2,778,299)		(2,778,299)	
(279,525)		(279,525)	
<u>(11,067,923)</u>		<u>(11,067,923)</u>	
	\$ (722,356)	(722,356)	
	(8,434)	(8,434)	
	252,068	252,068	
	<u>(478,722)</u>	<u>(478,722)</u>	
<u>(11,067,923)</u>	<u>(478,722)</u>	<u>(11,546,645)</u>	
			\$ 30,772
			(68,232)
			<u>(22,111)</u>
			<u>(59,571)</u>
5,948,055	63,669	6,011,724	9,117
3,963,197	-	3,963,197	-
314,313	-	314,313	-
41,215	-	41,215	-
1,650,579	-	1,650,579	-
547,481	-	547,481	12,637
79,215	108,296	187,511	26,021
37,926	107	38,033	57
83,695	-	83,695	-
-	-	-	36,924
176,035	78,837	254,872	17
-	6,561	6,561	-
-	3,900	3,900	-
<u>(578,361)</u>	<u>578,361</u>	<u>-</u>	<u>-</u>
12,263,350	839,731	13,103,081	84,773
1,195,427	361,009	1,556,436	25,202
20,998,697	3,108,140	24,106,837	1,028,332
<u>\$ 22,194,124</u>	<u>\$ 3,469,149</u>	<u>\$ 25,663,273</u>	<u>\$ 1,053,534</u>

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions	\$ 23,812	\$ 134,613	\$ 37,890	\$ 196,315
Rental revenue	46,289	-	-	46,289
Sales and services	36,698	130	-	36,828
Net investment income	31,603	75,162	63,062	169,827
Grants and aid	11,846	-	-	11,846
Other revenues	33,912	4,169	354	38,435
Net assets released from restrictions	181,176	(160,735)	(20,441)	-
Total Revenues	365,336	53,339	80,865	499,540
EXPENSES				
Program services:				
Payments to Universities	157,779	-	-	157,779
Leasing related expenses	10,330	-	-	10,330
Payments on behalf of Universities	20,163	-	-	20,163
Other program services	7,178	-	-	7,178
Management and general expenses	66,923	-	-	66,923
Fundraising expenses	11,621	-	-	11,621
Interest	22,804	-	-	22,804
Depreciation and amortization	19,848	-	-	19,848
Other expenses	16,085	-	-	16,085
Total Expenses	332,731	-	-	332,731
Increase in Net Assets, before extraordinary items	32,605	53,339	80,865	166,809
Extraordinary items (Primarily equity transfers)	-	(472)	-	(472)
Increase in Net Assets, after extraordinary items	32,605	52,867	80,865	166,337
Net Assets - Beginning, as restated	(9,637)	411,987	847,487	1,249,837
Transfers	267	(343)	76	-
Net Assets - Ending	\$ 23,235	\$ 464,511	\$ 928,428	\$ 1,416,174

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,					
	GENERAL	HIGHWAY	LAND	OTHER		
	FUND	MAINTENANCE & SAFETY FUND	ENDOWMENTS FUND	GOVERNMENTAL FUNDS		TOTAL
ASSETS						
Cash	\$ 1,856	\$ -	\$ 28	\$ 1,377	\$	3,261
Cash and pooled investments with State Treasurer	1,515,259	83,448	92,737	816,195		2,507,639
Collateral investment pool	22,897	1,733	430,419	14,898		469,947
Receivables, net of allowances:						
Taxes	288,192	62,117	-	73,579		423,888
Interest	39	-	214,679	-		214,718
Loans and notes	35,783	3,772	286,397	-		325,952
Other	79,550	16,070	5,526	25,949		127,095
Due from U.S. Government	720,481	80,236	-	10,705		811,422
Due from local governments	150,564	-	-	-		150,564
Due from others	132,680	-	-	-		132,680
Due from other Funds	36,093	-	190	25,513		61,796
Inventories, at cost	14,824	6,833	-	-		21,657
Restricted assets:						
Cash	27	-	-	-		27
Cash and pooled investments with State Treasurer	28,000	978,359	-	748,038		1,754,397
Cash held by trustee	15,580	-	-	11,571		27,151
Investments	3,274	-	-	-		3,274
Securities held in escheat	54,087	-	-	-		54,087
Endowment investments	-	-	4,858,023	-		4,858,023
Other	112	-	-	-		112
Total Assets	<u>\$ 3,099,298</u>	<u>\$ 1,232,568</u>	<u>\$ 5,887,999</u>	<u>\$ 1,727,825</u>	<u>\$</u>	<u>11,947,690</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 297,988	\$ 120,081	\$ 5,864	\$ 37,698	\$	461,631
Accrued liabilities	667,749	6,883	-	47,555		722,187
Obligations under securities loan agreements	22,897	1,733	430,419	14,898		469,947
Tax refunds payable	2,442	-	-	-		2,442
Due to U.S. Government	7,482	-	-	-		7,482
Due to local governments	1,046,272	125,313	-	77,434		1,249,019
Due to others	377,562	-	1	10,436		387,999
Due to other Funds	212,375	7,287	7,050	26,945		253,657
Unearned revenue	75,857	-	111,596	381		187,834
Total Liabilities	<u>2,710,624</u>	<u>261,297</u>	<u>554,930</u>	<u>215,347</u>		<u>3,742,198</u>
Deferred Inflows of Resources	<u>364,085</u>	<u>-</u>	<u>490,964</u>	<u>796</u>		<u>855,845</u>
Fund Balances:						
Nonspendable	9,600	6,833	4,871,849	-		4,888,282
Restricted	124,390	793,713	-	947,961		1,866,064
Committed	79,837	170,725	-	563,721		814,283
Unassigned	(189,238)	-	(29,744)	-		(218,982)
Total Fund Balances	<u>24,589</u>	<u>971,271</u>	<u>4,842,105</u>	<u>1,511,682</u>		<u>7,349,647</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,099,298</u>	<u>\$ 1,232,568</u>	<u>\$ 5,887,999</u>	<u>\$ 1,727,825</u>	<u>\$</u>	<u>11,947,690</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**
JUNE 30, 2014
(Expressed in Thousands)

Total fund balances - governmental funds	\$	7,349,647
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	21,541,821
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Certain receivables are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the governmental funds.	855,845
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	(189,888)
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The allocation of the internal service fund accumulated net gain results in an amount due to business-type activities, which is not reported in the governmental funds.	(61,001)
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Deferred outflows of resources for the loss on refunding of debt are not reported in the governmental funds.	26,361
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Long-term debt is not due and payable from current financial resources and, therefore, is not reported in the governmental funds. These amounts consist of:

Revenue bonds	(3,406,195)	
Grant anticipation notes	(247,710)	
Certificates of participation	(2,200,675)	
Capital leases	(449,209)	
Notes payable	(89,865)	
Premium on debt	(427,865)	(6,821,519)

Accrued liabilities for AHCCCS programmatic costs and reimbursements are not due and payable from current financial resources and, therefore, are not reported in the governmental funds.	(293,349)
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Accrued interest on long-term obligations is not due and payable from current financial resources and, therefore, is not reported in the governmental funds.	(28,389)
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Other long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. Those liabilities consist of:

Compensated absences	(164,883)	
Pollution remediation obligations	(20,521)	(185,404)

Net position of governmental activities	\$	22,194,124
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The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				
	GENERAL	HIGHWAY MAINTENANCE &	LAND ENDOWMENTS	OTHER GOVERNMENTAL	
	FUND	SAFETY FUND	FUND	FUNDS	TOTAL
REVENUES					
Taxes:					
Sales	\$ 5,156,987	\$ 243,786	\$ -	\$ 533,051	\$ 5,933,824
Income	4,012,562	-	-	41	4,012,603
Tobacco	68,043	-	-	246,270	314,313
Property	26,240	12,975	-	2,000	41,215
Motor vehicle and fuel	8,534	1,487,934	-	154,111	1,650,579
Other	439,703	-	-	107,778	547,481
Intergovernmental	10,952,638	704,408	-	95,665	11,752,711
Licenses, fees, and permits	89,352	98,402	3,182	284,897	475,833
Hospital and nursing facility assessments	-	-	-	91,578	91,578
Earnings on investments	22,979	6,226	660,778	49,876	739,859
Sales and charges for services	100,409	1,170	60,793	23,310	185,682
Fines, forfeitures, and penalties	24,999	-	-	146,162	171,161
Gaming	6,131	-	-	80,195	86,326
Tobacco settlement	100,765	-	-	-	100,765
Proceeds from sale of trust land	-	-	86,319	-	86,319
Other	163,193	17,745	9,386	18,534	208,858
Total Revenues	21,172,535	2,572,646	820,458	1,833,468	26,399,107
EXPENDITURES					
Current:					
General government	618,964	-	-	131,199	750,163
Health and welfare	12,290,325	-	5,401	347,729	12,643,455
Inspection and regulation	42,635	-	-	118,683	161,318
Education	4,828,811	-	47,419	696,184	5,572,414
Protection and safety	1,108,806	-	2,351	249,230	1,360,387
Transportation	4	672,485	-	15,309	687,798
Natural resources	80,237	-	941	111,865	193,043
Intergovernmental revenue sharing	1,712,501	1,065,798	-	-	2,778,299
Debt service:					
Principal	131,033	51,264	-	311,295	493,592
Interest and other fiscal charges	62,749	520	-	248,755	312,024
Capital outlay	244,589	428,545	12	156,484	829,630
Total Expenditures	21,120,654	2,218,612	56,124	2,386,733	25,782,123
Excess (Deficiency) of Revenues Over Expenditures	51,881	354,034	764,334	(553,265)	616,984
OTHER FINANCING SOURCES (USES)					
Transfers in	328,678	911	31	574,641	904,261
Transfers out	(882,237)	(303,030)	(49,272)	(162,793)	(1,397,332)
Proceeds from sale of capital assets	-	900	-	-	900
Capital lease and installment purchase contracts	100,678	13,236	-	-	113,914
Refunding certificates of participation issued	305,675	-	-	-	305,675
Proceeds from notes and loans	-	29,130	-	-	29,130
Payment to refunded certificates of participation escrow agent	(310,059)	-	-	-	(310,059)
Premium on debt issued	6,770	-	-	-	6,770
Total Other Financing Sources (Uses)	(450,495)	(258,853)	(49,241)	411,848	(346,741)
Net Change in Fund Balances	(398,614)	95,181	715,093	(141,417)	270,243
Fund Balances - Beginning	423,203	876,090	4,127,012	1,653,099	7,079,404
Fund Balances - Ending	\$ 24,589	\$ 971,271	\$ 4,842,105	\$ 1,511,682	\$ 7,349,647

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 270,243

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of assets is allocated over their estimated useful lives and reported as depreciation expense. Also, infrastructure was adjusted to primarily reflect reduction in construction in progress resulting from certain infrastructure projects being reclassified from capital outlay to non-capital. This is the amount by which capital outlays exceeded depreciation and infrastructure adjustments in the current period.

Capital outlay	829,630	
Infrastructure adjustment	(94,559)	
Depreciation expense	<u>(112,565)</u>	622,506

The net expense of the internal service funds is included with governmental activities in the Statement of Activities. (36,467)

Net change in certain revenues reported in the Statement of Activities do not provide current financial resources and, therefore, are reported as deferred inflows in the governmental funds.

Sales taxes	14,231	
Income taxes	(49,406)	
Operating grants	118,712	
Right-of-way lease revenue	(1,026)	
Other revenue	<u>2</u>	82,513

Trust land sales are financed with long-term mortgages. In the Statement of Activities, the gain on sale of trust land is reported, whereas in the governmental funds, the proceeds from the collection of mortgage payments are reported. In fiscal year 2014, mortgage payments received exceeded gains resulting from current year land sales. In addition, accrued interest on land sales contracts are reported as revenues in the Statement of Activities but are not reported as revenues in the governmental funds.

Excess of mortgage receipts over gain on sale of land	(2,624)	
Accrued interest on land sales' contracts	<u>11,958</u>	9,334

Certain expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

AHCCCS accrued programmatic costs	(122,266)	
Compensated absences	(8,503)	
Pollution remediation obligations	1,562	
Interest on long-term obligations	6,536	
Adjustment for deferred amounts	<u>(19,240)</u>	(141,911)

The Notes to the Financial Statements are an integral part of this statement. (Continued)

STATE OF ARIZONA
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Bond proceeds provide current financial resources to the governmental funds; however,
issuing debt increases long-term liabilities in the Statement of Net Position. In the current
period, proceeds were received from:

Refunding certificates of participation issued	(305,675)	
Proceeds from notes and loans	(29,130)	
Premium on debt issued	<u>(6,770)</u>	(341,575)

Repayment of long-term debt is reported as an expenditure in the governmental funds, but
the repayment reduces long-term liabilities and deferred outflows of resources in the
Statement of Net Position. In the current year, these amounts consist of:

Debt service principal	493,592	
Payment to refunded certificates of participation escrow agent	310,059	
Debt premium/discount amortization	44,243	
Amortization of deferred losses on refundings	<u>(3,196)</u>	844,698

Some capital asset additions were financed through capital leases and installment purchase
contracts. Such financing arrangements are reported as an other financing source in the
governmental funds; however, these amounts are reported as liabilities in the Statement
of Net Position.

(113,914)

Change in net position of governmental activities

<u>\$</u>	<u>1,195,427</u>
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The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
		INDUSTRIAL COMMISSION SPECIAL FUND	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS	UNIVERSITIES				
Current Assets:					
Cash	\$ 173,156	\$ 113,842	\$ 4,293	\$ 291,291	\$ -
Cash with U.S. Treasury	-	-	8,244	8,244	-
Cash and pooled investments with State Treasurer	1,789	888	68,518	71,195	426,111
Restricted cash and pooled investments with State Treasurer	-	-	77,833	77,833	-
Collateral investment pool	-	44,899	-	44,899	-
Short-term investments	173,922	-	-	173,922	-
Receivables, net of allowances:					
Taxes	-	4,182	91,906	96,088	-
Interest	429	1,990	-	2,419	-
Loans and notes	4,171	-	-	4,171	-
Other	136,250	1,260	30,354	167,864	11,221
Due from U.S. Government	86,862	-	73	86,935	3,600
Due from other Funds	218,059	3	144	218,206	2,831
Inventories, at cost	8,542	-	13,602	22,144	3,173
Other current assets	20,156	-	660	20,816	5,532
Total Current Assets	823,336	167,064	295,627	1,286,027	452,468
Noncurrent Assets:					
Restricted assets:					
Cash	23,317	-	-	23,317	-
Cash and pooled investments with State Treasurer	-	-	-	-	975
Cash held by trustee	254,390	-	-	254,390	-
Investments held by trustee	81,360	-	-	81,360	-
Receivables, net of allowances:					
Loans and notes	33,071	-	-	33,071	-
Other	10,411	-	-	10,411	-
Investments	754,386	400,971	-	1,155,357	-
Endowment investments	429,865	-	-	429,865	-
Other noncurrent assets	7,536	-	9,862	17,398	-
Capital assets:					
Land and other non-depreciable	543,030	2,997	2,884	548,911	76
Buildings, equipment, and other depreciable, net of accumulated depreciation	3,911,111	9,843	23,853	3,944,807	82,212
Total Noncurrent Assets	6,048,477	413,811	36,599	6,498,887	83,263
Total Assets	6,871,813	580,875	332,226	7,784,914	535,731
DEFERRED OUTFLOWS OF RESOURCES	51,779	-	-	51,779	-

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	INDUSTRIAL COMMISSION		TOTAL ENTERPRISE		ACTIVITIES -
	UNIVERSITIES	SPECIAL FUND	OTHER	FUNDS	INTERNAL SERVICE FUNDS
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	\$ 139,826	\$ 4,506	\$ 5,289	\$ 149,621	\$ 136,410
Payable for securities purchased	-	3,472	-	3,472	-
Accrued liabilities	37,110	-	29,939	67,049	865
Obligations under securities loan agreements	-	44,899	-	44,899	-
Due to U.S. Government	-	-	13,025	13,025	-
Due to others	29,685	-	42,660	72,345	-
Due to component units	-	-	260	260	-
Due to other Funds	-	-	29,162	29,162	14
Unearned revenue	171,631	133	2,152	173,916	-
Current portion of accrued insurance losses	-	25,501	-	25,501	59,786
Current portion of long-term debt	124,308	-	-	124,308	-
Current portion of other long-term liabilities	18,620	-	1,873	20,493	10,172
Total Current Liabilities	<u>521,180</u>	<u>78,511</u>	<u>124,360</u>	<u>724,051</u>	<u>207,247</u>
Noncurrent Liabilities:					
Accrued insurance losses	-	458,643	-	458,643	369,543
Funds held for others	47,290	-	-	47,290	-
Long-term debt	3,121,442	-	-	3,121,442	-
Derivative instrument - interest rate swap	14,135	-	-	14,135	-
Other long-term liabilities	62,911	-	73	62,984	148,829
Total Noncurrent Liabilities	<u>3,245,778</u>	<u>458,643</u>	<u>73</u>	<u>3,704,494</u>	<u>518,372</u>
Total Liabilities	<u>3,766,958</u>	<u>537,154</u>	<u>124,433</u>	<u>4,428,545</u>	<u>725,619</u>
NET POSITION					
Net investment in capital assets	1,541,859	12,840	26,737	1,581,436	82,288
Restricted for:					
Unemployment Compensation	-	-	57,585	57,585	-
Capital projects	17,505	-	-	17,505	-
Debt service	12,964	-	-	12,964	-
Universities fund:					
Expendable	274,835	-	-	274,835	-
Nonexpendable	219,758	-	-	219,758	-
Loans and other financial assistance:					
Expendable	-	-	77,833	77,833	-
Unrestricted (deficit)	<u>1,089,713</u>	<u>30,881</u>	<u>45,638</u>	<u>1,166,232</u>	<u>(272,176)</u>
Total Net Position	<u>\$ 3,156,634</u>	<u>\$ 43,721</u>	<u>\$ 207,793</u>	<u>\$ 3,408,148</u>	<u>\$ (189,888)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				61,001	
Net position of business-type activities				<u>\$ 3,469,149</u>	

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION**
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	INDUSTRIAL COMMISSION		TOTAL ENTERPRISE		ACTIVITIES -
	UNIVERSITIES	SPECIAL FUND	OTHER	FUNDS	INTERNAL SERVICE FUNDS
OPERATING REVENUES					
Sales and charges for services:					
Student tuition and fees, net of scholarship allowances of \$483,109	\$ 1,570,546	\$ -	\$ -	\$ 1,570,546	\$ -
Auxiliary enterprises, net of scholarship allowances of \$21,531	382,991	-	-	382,991	-
Educational department	102,770	-	-	102,770	-
Other	-	-	838,728	838,728	1,006,504
Unemployment assessments	-	-	455,979	455,979	-
Workers' compensation assessments	-	22,391	-	22,391	-
Intergovernmental	556,539	-	84,094	640,633	-
Nongovernmental grants and contracts	127,500	-	-	127,500	-
Fines, forfeitures, and penalties	-	-	1,878	1,878	-
Settlement income	-	6,070	-	6,070	-
Other	45,082	-	7,800	52,882	56
Total Operating Revenues	2,785,428	28,461	1,388,479	4,202,368	1,006,560
OPERATING EXPENSES					
Cost of sales and benefits	1,094,086	31,176	1,032,842	2,158,104	795,129
Scholarships and fellowships	232,278	-	-	232,278	-
Personal services	2,372,383	-	42,109	2,414,492	39,371
Contractual services	-	-	26,083	26,083	22,679
Depreciation and amortization	262,307	1,338	2,232	265,877	13,673
Insurance	-	-	726	726	82,940
Other	-	-	8,950	8,950	5,445
Total Operating Expenses	3,961,054	32,514	1,112,942	5,106,510	959,237
Operating Income (Loss)	(1,175,626)	(4,053)	275,537	(904,142)	47,323
NON-OPERATING REVENUES (EXPENSES)					
Share of State sales tax revenues	63,669	-	-	63,669	-
Intergovernmental	291,951	-	-	291,951	-
Gifts and donations	248,845	-	-	248,845	-
Gain (loss) on sale of capital assets	(755)	(7)	(9)	(771)	36
Investment income	48,356	59,020	2,608	109,984	4
Endowment earnings on investments	33,305	-	-	33,305	-
Other non-operating revenue	24,510	2,154	62	26,726	312
Distributions	-	-	(14,763)	(14,763)	-
Interest expense	(126,966)	-	(2,538)	(129,504)	-
Other non-operating expense	(9,642)	(4,381)	(56)	(14,079)	-
Total Non-Operating Revenues (Expenses)	573,273	56,786	(14,696)	615,363	352
Income (Loss) Before Contributions, Extraordinary Items, and Transfers	(602,353)	52,733	260,841	(288,779)	47,675
Capital grants and contributions	41,250	-	107	41,357	20,757
Contributions to permanent endowments	6,561	-	-	6,561	-
Extraordinary Items:					
Insurance recovery	3,900	-	-	3,900	-
Transfers in	737,316	8,000	-	745,316	-
Transfers out	-	-	(166,955)	(166,955)	(85,290)
Change in Net Position	186,674	60,733	93,993	341,400	(16,858)
Total Net Position - Beginning, as restated	2,969,960	(17,012)	113,800	3,066,748	(173,030)
Total Net Position - Ending	\$ 3,156,634	\$ 43,721	\$ 207,793	\$ 3,408,148	\$ (189,888)
Change in net position of enterprise funds				\$ 341,400	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				19,609	
Change in net position of business-type activities				\$ 361,009	

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	INDUSTRIAL COMMISSION SPECIAL FUND	OTHER	TOTAL ENTERPRISE FUNDS	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ -	\$ -	\$ 445,267	\$ 445,267	\$ -
Receipts from assessments	-	23,137	458,133	481,270	-
Receipts from student tuition and fees	1,553,824	-	-	1,553,824	-
Receipts from sales and services of auxiliary enterprises	382,808	-	-	382,808	-
Receipts from sales and services of educational departments	104,497	-	-	104,497	-
Receipts from interfund services / premiums	-	-	-	-	1,007,797
Receipts from grants and contracts	680,943	-	84,095	765,038	-
Receipts from student loans collected	5,696	-	-	5,696	-
Receipts from settlement income	-	6,070	62	6,132	-
Payments to suppliers, prize winners, claimants, or insurance companies	(1,088,613)	(27,388)	(679,431)	(1,795,432)	(853,863)
Payments to employees	(2,334,239)	-	(57,045)	(2,391,284)	(38,851)
Payments to retirees	-	-	-	-	(12,172)
Payments for scholarships and fellowships	(235,656)	-	-	(235,656)	-
Payments for student loans issued	(7,529)	-	-	(7,529)	-
Other receipts	72,512	2,154	17,345	92,011	275
Other payments	-	-	(94,376)	(94,376)	-
Net Cash Provided (Used) by Operating Activities	(865,757)	3,973	174,050	(687,734)	103,186
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Receipts from custodial funds	410,166	-	-	410,166	-
Receipts from share of State sales tax	65,856	-	-	65,856	-
Receipts from grants and contributions	1,412,506	-	-	1,412,506	-
Transfers from other Funds	685,082	8,000	-	693,082	-
Custodial funds disbursed	(410,902)	-	-	(410,902)	-
Grants and contributions disbursed	(847,439)	-	-	(847,439)	-
Distributions	-	-	(14,763)	(14,763)	-
Interest paid on loan due to U.S. Government	-	-	(7,751)	(7,751)	-
Transfers to other Funds	-	-	(190,755)	(190,755)	(85,290)
Other receipts	12,354	-	-	12,354	-
Net Cash Provided (Used) by Non-capital Financing Activities	1,327,623	8,000	(213,269)	1,122,354	(85,290)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	360	-	30	390	1,345
Proceeds from capital debt, installment purchase contracts, and capital leases	145,697	-	-	145,697	-
Receipts from federal subsidy	15,874	-	-	15,874	-
Receipts from capital grants and contributions	51,960	-	-	51,960	-
Receipts from insurance recoveries	-	-	-	-	90
Transfers from other Funds	34,312	-	-	34,312	-
Acquisition and construction of capital assets	(442,036)	-	(1,343)	(443,379)	(2,043)
Interest paid on capital debt, installment purchase contracts, and capital leases	(132,152)	-	-	(132,152)	-
Principal paid on capital debt, installment purchase contracts, and capital leases	(108,286)	-	-	(108,286)	-
Net Cash (Used) by Capital and Related Financing Activities	(434,271)	-	(1,313)	(435,584)	(608)

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	INDUSTRIAL COMMISSION SPECIAL FUND	OTHER	TOTAL ENTERPRISE FUNDS	
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	244,441	328,796	-	573,237	-
Interest and dividends from investments	38,092	13,389	2,596	54,077	6
Change in cash collateral received from securities lending transactions	-	19	(44)	(25)	-
Purchase of investments	(322,085)	(300,760)	-	(622,845)	-
Net Cash Provided (Used) by Investing Activities	(39,552)	41,444	2,552	4,444	6
Net Increase (Decrease) in Cash and Cash Equivalents	(11,957)	53,417	(37,980)	3,480	17,294
Cash and Cash Equivalents - Beginning	464,609	106,212	196,868	767,689	409,792
Cash and Cash Equivalents - Ending	<u>\$ 452,652</u>	<u>\$ 159,629</u>	<u>\$ 158,888</u>	<u>\$ 771,169</u>	<u>\$ 427,086</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (1,175,626)	\$ (4,053)	\$ 275,537	\$ (904,142)	\$ 47,323
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	262,307	1,338	2,232	265,877	13,673
Provision for uncollectible accounts	-	-	13	13	-
Miscellaneous income (expense)	25,279	(189)	62	25,152	221
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(32,106)	734	8,051	(23,321)	(558)
Decrease in due from U.S. Government	-	-	1	1	1,800
Decrease in due from other Funds	-	-	43	43	62
(Increase) decrease in inventories, at cost	870	-	(2,485)	(1,615)	549
(Increase) decrease in other assets	20	-	(644)	(624)	39
Increase (decrease) in accounts payable	18,193	(182)	(3,450)	14,561	18,483
Increase in accrued liabilities	8,731	-	2,919	11,650	157
(Decrease) in due to U.S. Government	-	-	(98,444)	(98,444)	-
(Decrease) in due to other Funds	-	-	(2)	(2)	(15,476)
(Decrease) in due to others	-	-	(7,271)	(7,271)	-
Increase (decrease) in unearned revenue	26,575	28	(2,982)	23,621	(13)
Increase in accrued insurance losses	-	6,297	-	6,297	33,714
Increase in other liabilities	-	-	470	470	3,212
Net Cash Provided (Used) by Operating Activities	<u>\$ (865,757)</u>	<u>\$ 3,973</u>	<u>\$ 174,050</u>	<u>\$ (687,734)</u>	<u>\$ 103,186</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES					
Contribution of capital assets from other Funds	\$ -	\$ -	\$ 107	\$ 107	\$ 20,757
Gifts and conveyances of capital assets	882	-	-	882	-
(Loss) on disposal of capital assets, net	(1,319)	(7)	(9)	(1,335)	-
Increase in fair value of investments	19,982	44,450	-	64,432	-
Amortization of bond discount	(2,400)	-	-	(2,400)	-
Amortization of bond premium	9,953	-	-	9,953	-
Amortization of unearned rent	4,900	-	-	4,900	-
Refinancing long-term debt	16,315	-	-	16,315	-
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ 48,313</u>	<u>\$ 44,443</u>	<u>\$ 98</u>	<u>\$ 92,854</u>	<u>\$ 20,757</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2014
 (Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUSTS	AGENCY FUNDS
ASSETS			
Cash	\$ 355,172	\$ -	\$ 50,315
Cash and pooled investments with State Treasurer	-	21,000	69,880
Short-term investments	-	-	8,236
Receivables, net of allowances:			
Accrued interest and dividends	70,529	3,037	1
Securities sold	87,478	-	-
Forward contracts receivable	438,188	-	-
Contributions	94,532	-	-
Court fees	683	-	-
Due from other Funds	9,760	-	-
Other	39,842	-	2
Total receivables	741,012	3,037	3
Investments, at fair value:			
Temporary investments	1,749,791	-	-
Fixed income securities	7,790,204	2,720,310	-
Corporate stocks	23,653,151	-	-
Global tactical asset allocation	4,212,886	-	-
Real assets	555,868	-	-
Real estate	2,969,305	-	-
Private equity	1,081,812	-	-
Opportunistic investments	714,557	-	-
Collateral investment pool	601,169	16,715	-
Other investments	713,214	-	-
Total investments	44,041,957	2,737,025	-
Due from others	-	-	82,589
Custodial securities in safekeeping	-	-	3,846,490
Other assets	-	-	1,658
Property and equipment, net of accumulated depreciation	4,355	-	-
Total Assets	45,142,496	2,761,062	4,059,171
LIABILITIES			
Accounts payable and other current liabilities	81,582	-	-
Payable for securities purchased	335,571	-	-
Management fee payable	-	137	-
Obligation under securities loan agreements	601,169	16,715	-
Forward contracts payable	416,884	-	-
Due to local governments	-	-	1,012
Due to others	-	-	4,058,159
Due to other Funds	9,760	-	-
Total Liabilities	1,444,966	16,852	4,059,171
NET POSITION			
Held in trust for:			
Pension benefits	41,440,778	-	-
Other post-employment benefits	2,256,752	-	-
Pool participants	-	2,744,210	-
Total Net Position	\$ 43,697,530	\$ 2,744,210	\$ -

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS:		
Member contributions	\$ 1,218,175	\$ -
Employer contributions	1,576,220	-
Non-employer entity contributions	5,000	-
Member purchase of service credit	43,915	-
Court fees	8,541	-
Investment income:		
Net increase in fair value of investments	6,394,466	3,018
Interest income	202,978	14,476
Dividends	410,304	-
Other investment income	94,498	-
Securities lending income	4,949	187
Total investment income	7,107,195	17,681
Less investment expenses:		
Investment activity expenses	313,515	1,639
Securities lending expenses	681	93
Net investment income	6,792,999	15,949
Capital share and individual account transactions:		
Shares sold	-	4,353,027
Reinvested interest income	-	11,831
Shares redeemed	-	(4,589,103)
Net capital share and individual account transactions	-	(224,245)
Other additions	32,080	-
Total Additions	9,676,930	(208,296)
DEDUCTIONS:		
Retirement, disability, and survivor benefits	3,503,338	-
Health insurance subsidy	17,566	-
Refunds to withdrawing members, including interest	291,238	-
Administrative expense	37,365	-
Dividends to investors	-	14,198
Other deductions	2,847	-
Total Deductions	3,852,354	14,198
Change in net position held in trust for:		
Pension benefits	5,522,970	-
Other post-employment benefits	301,606	-
Pool participants	-	(222,494)
Net Position - Beginning	37,872,954	2,966,704
Net Position - Ending	\$ 43,697,530	\$ 2,744,210

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
 COMPONENT UNITS
 JUNE 30, 2014
 (Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY OF ARIZONA HEALTH NETWORK & SUBSIDIARIES	OTHER COMPONENT UNITS	TOTAL
ASSETS				
Current Assets:				
Cash	\$ -	\$ 46,703	\$ 23,871	\$ 70,574
Cash and pooled investments with State Treasurer	196,574	-	127,994	324,568
Cash held by trustee	11,533	-	-	11,533
Collateral investment pool	1,036	-	2,452	3,488
Short-term investments	-	111,290	-	111,290
Restricted investments held by trustee	-	22,674	5,343	28,017
Receivables, net of allowances:				
Taxes	-	-	2,672	2,672
Interest	8,546	-	15	8,561
Loans and notes	-	-	1,673	1,673
Patient accounts receivable	-	161,330	-	161,330
Other	8,558	77,062	4,083	89,703
Inventories, at cost	-	21,171	-	21,171
Other current assets	-	-	2,394	2,394
Total Current Assets	226,247	440,230	170,497	836,974
Noncurrent Assets:				
Restricted assets:				
Cash and pooled investments with State Treasurer	-	-	11,965	11,965
Cash held by trustee	-	-	17,342	17,342
Investments	85,996	67,346	-	153,342
Investments held by trustee	-	28,124	7,757	35,881
Loans and notes receivable, net of allowances	1,094,306	-	23,139	1,117,445
Other receivables, net of allowances	-	7,512	-	7,512
Investments	28,280	-	-	28,280
Other noncurrent assets	-	2,246	606	2,852
Capital assets:				
Land and other non-depreciable	-	27,890	11,277	39,167
Buildings, equipment, and other depreciable, net of accumulated depreciation	18	390,125	26,006	416,149
Total Noncurrent Assets	1,208,600	523,243	98,092	1,829,935
Total Assets	1,434,847	963,473	268,589	2,666,909
DEFERRED OUTFLOWS OF RESOURCES	25,908	-	33,791	59,699
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	-	98,136	11,646	109,782
Accrued liabilities	9,479	98,564	650	108,693
Obligations under securities loan agreements	1,036	-	2,452	3,488
Current portion of accrued insurance losses	-	9,710	-	9,710
Current portion of long-term debt	46,495	27,481	10,160	84,136
Current portion of other long-term liabilities	104	30,255	-	30,359
Total Current Liabilities	57,114	264,146	24,908	346,168
Noncurrent Liabilities:				
Unearned revenue	2,033	-	-	2,033
Accrued insurance losses	-	21,553	-	21,553
Long-term debt	846,252	335,805	117,008	1,299,065
Other long-term liabilities	-	4,255	-	4,255
Total Noncurrent Liabilities	848,285	361,613	117,008	1,326,906
Total Liabilities	905,399	625,759	141,916	1,673,074
NET POSITION				
Net investment in capital assets	18	72,668	34,029	106,715
Restricted for:				
Debt service	85,996	10,195	35,319	131,510
Loans and other financial assistance	470,571	-	58,593	529,164
Other	-	17,712	22,596	40,308
Unrestricted	(1,229)	237,139	9,927	245,837
Total Net Position	\$ 555,356	\$ 337,714	\$ 160,464	\$ 1,053,534

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Thousands)

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>
Water Infrastructure Finance Authority	\$ 41,528	\$ 35,929	\$ 36,371
University of Arizona Health Network & Subsidiaries	1,364,116	1,295,884	-
Other Component Units	60,147	29,964	8,072
Total	<u>\$ 1,465,791</u>	<u>\$ 1,361,777</u>	<u>\$ 44,443</u>

General Revenues:

Taxes:

Sales

Other

Unrestricted investment earnings

Unrestricted grants and contributions

Payments from State of Arizona

Miscellaneous

Change in Net Position

Net Position - Beginning, as restated

Net Position - Ending

The Notes to the Financial Statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION				
WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY OF ARIZONA HEALTH NETWORK & SUBSIDIARIES	OTHER COMPONENT UNITS	TOTAL	
\$ 30,772	\$ -	\$ -	\$ 30,772	
-	(68,232)	-	(68,232)	
-	-	(22,111)	(22,111)	
-	-	9,117	9,117	
-	-	12,637	12,637	
5,998	18,754	1,269	26,021	
-	-	57	57	
-	-	36,924	36,924	
-	-	17	17	
36,770	(49,478)	37,910	25,202	
518,586	387,192	122,554	1,028,332	
\$ 555,356	\$ 337,714	\$ 160,464	\$ 1,053,534	

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2014
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
ASSETS					
Cash and cash equivalent investments	\$ 9,326	\$ 22,798	\$ 3,157	\$ 18,586	\$ 53,867
Receivables:					
Pledges receivable	105,524	3,651	-	12,695	121,870
Other receivables	3,125	-	101	20,754	23,980
Total receivables	<u>108,649</u>	<u>3,651</u>	<u>101</u>	<u>33,449</u>	<u>145,850</u>
Investments:					
Investments in securities	714,592	768,158	16,426	188,830	1,688,006
Other investments	45,838	-	-	12,917	58,755
Total investments	<u>760,430</u>	<u>768,158</u>	<u>16,426</u>	<u>201,747</u>	<u>1,746,761</u>
Net direct financing leases	24,545	-	43,040	7,375	74,960
Property and equipment, net of accumulated depreciation	14,059	12,415	175,424	122,161	324,059
Other assets	<u>25,248</u>	<u>10,776</u>	<u>4,189</u>	<u>15,941</u>	<u>56,154</u>
Total Assets	<u>942,257</u>	<u>817,798</u>	<u>242,337</u>	<u>399,259</u>	<u>2,401,651</u>
LIABILITIES					
Accounts payable and accrued liabilities	5,768	2,378	7,688	19,175	35,009
Liability under endowment trust agreements	114,146	214,110	-	27,545	355,801
Long-term debt	73,290	-	289,085	153,646	516,021
Deferred revenue	-	-	-	25,964	25,964
Other liabilities	<u>35,584</u>	<u>6,302</u>	<u>-</u>	<u>10,796</u>	<u>52,682</u>
Total Liabilities	<u>228,788</u>	<u>222,790</u>	<u>296,773</u>	<u>237,126</u>	<u>985,477</u>
NET ASSETS					
Permanently restricted	398,876	463,772	-	65,780	928,428
Temporarily restricted	278,169	120,883	-	65,459	464,511
Unrestricted (deficit)	<u>36,424</u>	<u>10,353</u>	<u>(54,436)</u>	<u>30,894</u>	<u>23,235</u>
Total Net Assets	<u>\$ 713,469</u>	<u>\$ 595,008</u>	<u>\$ (54,436)</u>	<u>\$ 162,133</u>	<u>\$ 1,416,174</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
REVENUES					
Contributions	\$ 59,971	\$ 98,685	\$ -	\$ 37,659	\$ 196,315
Rental revenue	1,036	-	14,701	30,552	46,289
Sales and services	21,276	-	9,470	6,082	36,828
Net investment income	77,321	70,937	1	21,568	169,827
Grants and aid	-	-	-	11,846	11,846
Other revenues	11,190	10,255	8,642	8,348	38,435
Total Revenues	170,794	179,877	32,814	116,055	499,540
EXPENSES					
Program services:					
Payments to Universities	71,263	73,409	24	13,083	157,779
Leasing related expenses	-	-	-	10,330	10,330
Payments on behalf of Universities	-	14,829	-	5,334	20,163
Other program services	-	-	-	7,178	7,178
Management and general expenses	25,520	4,227	9,070	28,106	66,923
Fundraising expenses	-	8,269	-	3,352	11,621
Interest	1,970	-	13,098	7,736	22,804
Depreciation and amortization	867	-	12,587	6,394	19,848
Other expenses	13,519	-	61	2,505	16,085
Total Expenses	113,139	100,734	34,840	84,018	332,731
Increase (decrease) in Net Assets, before extraordinary items	57,655	79,143	(2,026)	32,037	166,809
Extraordinary item (Primarily equity transfers)	-	-	-	(472)	(472)
Increase (decrease) in Net Assets, after extraordinary items	57,655	79,143	(2,026)	31,565	166,337
Net Assets - Beginning, as restated	655,814	515,865	(52,410)	130,568	1,249,837
Net Assets - Ending	\$ 713,469	\$ 595,008	\$ (54,436)	\$ 162,133	\$ 1,416,174

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Arizona (the State) conform to U.S. Generally Accepted Accounting Principles (U.S. GAAP) applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

The State is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units. Component Units' footnote disclosures are presented in Note 16 – *Discretely Presented Component Unit Disclosures*.

Component Units

Component units are legally separate entities for which the State is considered to be financially accountable, or organizations that raise and hold economic resources for the direct benefit of the State. Blended component units, although legally separate entities, are in substance, part of a government's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units of the State, except for component units affiliated with the State's Universities, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the State. Because the component units affiliated with the Universities follow Financial Accounting Standards Board (FASB) statements, these financial statements have been reported on separate pages following the respective counterpart financial statements of the State. For financial reporting purposes, only the statement of financial position and the statement of activities for component units affiliated with the Universities are included in the State's financial statements, as required by the GASB.

GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. Where the State does not appoint a voting majority of an organization's governing body, GASB requires inclusion in the reporting entity if it is fiscally dependent on the State and there is a potential for the organization to either provide specific financial benefits to, or to impose specific financial burdens on, the State. Further, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading.

In addition, GASB requires that legally separate, tax-exempt entities that meet *all* of the following criteria should be discretely presented as component units: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The Northern Arizona Capital Facilities Finance Corporation (NACFFC) is blended with the Universities financial statements. The NACFFC was established for the purpose of acquiring, developing, constructing, and operating student housing and other capital facilities and equipment for the use and benefit of Northern Arizona University's (NAU) students. The NACFFC Board of Directors is appointed by the NAU, the NACFFC is controlled and operated by the NAU personnel, and the NACFFC's debt outstanding is expected to be repaid entirely or almost entirely with resources from the NAU.

The State reports the following component units as fiduciary funds:

The Arizona State Retirement System (ASRS) is a cost-sharing, multiple-employer, pension plan that benefits employees of the State and participating political subdivisions and school districts. The ASRS is administered in accordance with provisions of Arizona Revised Statutes (A.R.S.) Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is governed by a nine-member board that is appointed by the Governor and approved by the Senate to serve three-year terms. The State has the ability to impose its will on the ASRS as the State Legislature can modify the plan design and benefits. Additionally, per A.R.S. § 38-721, the State Legislature appropriates monies to pay for the administrative expenses of the ASRS. Complete financial statements may be

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obtained from the ASRS's administrative office at P.O. Box 33910, Phoenix, AZ 85067-3910, (602) 240-2000, or its website at www.azasrs.gov.

The Public Safety Personnel Retirement System (PSPRS) is an agent, multi-employer public employee retirement system that benefits public safety employees of certain State and local governments. The PSPRS is jointly administered by the Board of Trustees (formerly Fund Manager) and 237 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Board of Trustees is a seven-member board appointed by the Governor and approved by the Senate to serve a fixed five-year term. The State has the ability to impose its will on the PSPRS as the State Legislature can modify the plan design and benefits. Each eligible group participating in the system has a five-member local board. In general, all members serve a fixed four-year term. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at www.psprs.com.

The Elected Officials' Retirement Plan (EORP) is a cost-sharing, multi-employer public employee retirement plan that benefits elected officials and judges of certain State, county, and local governments. The Board of Trustees (formerly Fund Manager) of the PSPRS administers the EORP plan according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The State has the ability to impose its will on the EORP as the State Legislature can modify the plan design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at www.psprs.com.

The Corrections Officer Retirement Plan (CORP) is a multiple-employer public employee retirement plan that benefits prison and jail employees of certain state, county and local governments. CORP includes a cost-sharing multiple-employer plan for Administrative Office of the Courts (AOC) probation officers and an agent multiple-employer plan for all other members. The Board of Trustees (formerly Fund Manager) of the PSPRS, 26 local boards of the CORP, and 15 local boards of the AOC administer the plans according to the provisions of A.R.S. Title 38, Chapter 5, Article 6. The State has the ability to impose its will on the CORP and AOC as the State Legislature can modify the plans' design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at www.psprs.com.

The State reports the following discretely presented component units:

Major Component Units:

University of Arizona Health Network and Subsidiaries (UAHN) – The UAHN, an Arizona not-for-profit corporation, controls the University Medical Center Corporation and subsidiaries (UMC) and University Physicians Healthcare and subsidiaries (UPH). The UAHN is comprised of (i) a Hospital Division, which encompasses the University of Arizona Medical Center – University Campus, the University of Arizona Medical Center – South Campus, and more than 40 physician offices and clinics across southern Arizona, (ii) a faculty-physician Practice Plan Division known as the University of Arizona Physicians, which is the practice plan of the faculty-physicians of the University of Arizona College of Medicine, (iii) a Health Plans Division known as the University of Arizona Health Plans, which offers health care insurance plans, and (iv) the University Medical Center Foundation, which provides philanthropic support to the UAHN. The UAHN is governed by a seventeen-member board of directors whose appointments are approved by the Arizona Board of Regents. The State has the ability to impose its will on the UAHN as it must approve amendments to the articles of incorporation and bylaws of the board of directors. The UAHN must also receive approval from the State prior to entering any business transaction that may adversely affect the interest of the State. Complete financial statements may be obtained in writing from the UAHN at: The University of Arizona Health Network, Attn: Administration, 1501 N. Campbell Ave., Tucson, AZ 85724.

Water Infrastructure Finance Authority (WIFA) – The WIFA is authorized to administer the Clean Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act, which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has also entered into an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is governed by a twelve-member board of directors. The seven Governor appointed directors serve staggered terms of five years and serve at the pleasure of the Governor; thus, the State has the ability to impose its will on WIFA. Complete financial statements may be obtained from the WIFA's administrative offices at 1110 West Washington Street, Suite 290, Phoenix, AZ 85007, (602) 364-1324.

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Non-major Component Units:

Greater Arizona Development Authority (GADA) – The purpose of the GADA is to provide cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA was created by an Act of the Arizona Legislature in 1997 and is a body, corporate and politic, of the State. The GADA is governed by a nine-member Board of Directors consisting of four State of Arizona agency heads and five members, one of which shall be a representative of a tribal nation in Arizona, appointed by the Governor of the State. Members appointed by the Governor serve staggered five-year terms. A financial benefit/burden relationship exists between the State and GADA as its fund was originally capitalized with General Fund appropriations and the State Legislature has swept monies from its fund over the years to balance the State's budget. Complete financial statements may be obtained from the GADA's administrative office at 1110 West Washington Street, Suite 290, Phoenix, AZ 85007, (602) 364-1324.

Rio Nuevo Multipurpose Facilities District (Rio Nuevo) – The Rio Nuevo was established in 1999 with the passage of Proposition 400 by the voters in the Cities of Tucson and South Tucson. Under applicable A.R.S., the District can utilize tax incremental financing to help develop multipurpose facilities in the downtown Tucson area. The Rio Nuevo is governed by a nine-member board of directors, with five members appointed by the Governor, two members appointed by the President of the Senate, and the remaining two members appointed by the Speaker of the House of Representatives. All board of directors can be removed at will; thus, the State has the ability to impose its will on Rio Nuevo. Complete financial statements may be obtained from Rio Nuevo's administrative office at 400 West Congress, Suite 152, Tucson, AZ 85701, (520) 623-7336, or its website at rionuevo.org.

Arizona Power Authority (APA) – The APA purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws. The APA is governed by a commission of five members appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among their membership for a term of two years. The APA is required to follow specific State policies; thus, the State has the ability to impose its will on APA. Complete financial statements may be obtained from the APA's administrative offices at 1810 West Adams Street, Phoenix, AZ 85007-2679, (602) 368-4265.

Arizona Commerce Authority (ACA) – The ACA is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State's economic development objectives. The ACA is governed by a nineteen member board of directors consisting of the Governor serving as Chairperson, a Chief Executive Officer, and seventeen members consisting of private sector business leaders serving staggered three-year terms, of which, nine are appointed by the Governor, four are appointed by the President of the Senate, and the other four are appointed by the Speaker of the House of Representatives. A financial benefit/burden relationship exists between the State and ACA as its primary funding source is the allocated State General Fund withholding tax revenues received in each fiscal year according to A.R.S. § 43-409. Complete financial statements may be obtained from the ACA's administrative office at 333 North Central Avenue, Suite 1900, Phoenix, AZ 85004, (602) 845-1200.

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate boards of directors that meet the criteria established in GASB, with the exception of Downtown Phoenix Student Housing, LLC, the ASU Preparatory Academy, Inc. (ASU Prep) – formerly known as the University Public Schools, Inc., and Campus Research Corporation (CRC). The Downtown Phoenix Student Housing, LLC is included due to the nature and significance of the financial arrangement that it has with the State and that the State believes would be misleading to exclude. The ASU Prep is included because of its close affiliation to the State and that the State believes it would be misleading to exclude. The CRC is included because the U of A approves the budget and can access its resources.

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The following discretely presented component units of the State affiliated with the Universities are reported as *major* component units:

Arizona State University Foundation for a New American University (ASU Foundation) – The ASU Foundation's resources are disbursed at the discretion of the Foundation's independent board of directors, in accordance with donor directions and Foundation policy. The directors of the ASU Foundation make all decisions regarding the ASU Foundation's business affairs, including distributions made to the ASU. The economic resources held by the ASU Foundation are significant to the ASU and are entirely for the benefit of the ASU.

Arizona Capital Facilities Finance Corporation (ACFFC) – The ACFFC provides facilities for use by students of ASU or ASU itself. A fiscal dependency and financial benefit/burden relationship exists between the ACFFC and the ASU.

University of Arizona Foundation (U of A Foundation) – The U of A Foundation supports the U of A through various fundraising activities and contributes funds to the U of A in support of various programs. The restricted resources held by the U of A Foundation are significant to the U of A and can only be used by, or for the benefit of, the U of A or its constituents.

The following discretely presented component units of the State affiliated with the Universities are reported as *non-major* component units:

Arizona State University Alumni Association, Sun Angel Foundation, and Sun Angel Endowment – These three component units of the State affiliated with the Universities receive funds primarily through donations, dues, and/or affinity partners and contribute funds to ASU for support of various programs. The economic resources held by these three component units are significant to the ASU and are entirely for the benefit of the ASU.

Arizona State University Research Park, Inc. (ASU Research Park) – ASU Research Park manages a research park to promote and support research activities in coordination with ASU. In developing the research park, bonds were issued that are guaranteed by ASU. A fiscal dependency and financial benefit/burden relationship exists between the ASU Research Park and the ASU.

Downtown Phoenix Student Housing, LLC – This component unit of the State affiliated with the Universities provides housing facilities for use by students of the ASU.

ASU Prep – The ASU Prep prepares Arizona K-12 students for success with a university-embedded academic program that empowers them to complete college, compete globally, and contribute to their communities.

University of Arizona Alumni Association (U of A Alumni Association) – The U of A Alumni Association was established to serve the U of A and its graduates, former students, and friends by attracting, organizing, and encouraging them to advance the U of A's missions - teaching, research, and public service. The economic resources held by the U of A Alumni Association are significant to the U of A and are entirely or almost entirely for the benefit of the U of A.

University of Arizona Law College Association (Law Association) – The Law Association was established to provide support and financial assistance to the College of Law at the U of A. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships. The economic resources held by the Law Association are significant to the U of A and are entirely or almost entirely for the benefit of the U of A.

University of Arizona Campus Research Corporation (CRC) – The CRC was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Park) and related properties. The CRC currently leases from the U of A the remaining 67% of building space of the Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

University of Arizona Eller Executive Education (EEE) – The EEE was established to advance the missions of the Eller College of Management and the U of A through noncredit, non-degree programs for business, government, and nonprofit leaders. The U

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of A president appoints all EEE board members and can remove any member at will; thus, the U of A can impose its will on the EEE.

Northern Arizona University Foundation, Inc. (NAU Foundation) – The NAU Foundation receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of NAU for advancement of its mission. The restricted resources of the NAU Foundation can only be used by, or for the benefit of NAU or its constituents.

Complete financial statements for each of the aforementioned component units, except for the U of A Foundation, may be obtained as follows:

ASU Foundation, ACFFC, ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, ASU Research Park, LLC, Downtown Phoenix Student Housing, LLC, and the ASU Prep – contact ASU Financial Services at (480) 965-3601

U of A Alumni Association – Alumni Association, The University of Arizona, P.O. Box 210109, Tucson, AZ 85721-0109

Law Association – Law College Association, James E. Rogers College of Law at the University of Arizona, 1201 E. Speedway Blvd., Tucson, AZ 85721-0176

CRC – The University of Arizona Science and Technology Park, 9070 South Rita Road, Suite 1750, Tucson, AZ 85747

EEE – Eller Executive Education, 405 McClelland Hall, Tucson, AZ 85721

NAU Foundation and NACFFC – Northern Arizona University, Comptroller's Office, P.O. Box 4069, Flagstaff, AZ 86011

The financial statements of the U of A Foundation are not publicly available. For information regarding the U of A Foundation's financial statements, contact the U of A Comptroller at the following address: University of Arizona, Financial Services, 1303 E. University Blvd., Box 4, Tucson, AZ 85719-0521.

Related Organizations

Related organizations are legally separate entities for which the State is not considered to be financially accountable, and that do not meet the criteria established by GASB for inclusion. The State's accountability for these organizations does not extend beyond making the appointments, nor are the economic resources accessible to the State. As a result, financial activity for the organizations described below is not included in the State's financial statements.

Arizona Health Facilities Authority (the Authority) – A.R.S. § 36-482 established the Authority to issue tax-exempt bonds and loans for the purpose of improving health care for Arizona residents by providing less expensive financing for health care facilities. Proceeds from bond issues are loaned to various qualifying nonprofit health care organizations. The health care organizations reimburse the Authority for expenses for issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve staggered terms of seven years, and can be removed for cause or at will by the Governor with the consent of the Senate. The State cannot abrogate the rights of the Authority until all bonds, together with the interest thereon, are fully paid and discharged and all agreements are fully performed.

Arizona International Development Authority (the Authority) – A.R.S. § 41-4502 established the Authority to facilitate the development of international trade or commerce between Arizona and other countries. The Authority is governed by a seven-member board of directors appointed by the Governor and approved by the Senate for five-year terms, and can be removed only for cause.

Arizona Sports and Tourism Authority (the Authority) – A.R.S. § 5-802 established the Authority to construct, finance, furnish, maintain, improve, operate, market, and promote the use of a multipurpose facility and do all things necessary or convenient to accomplish those purposes. The Authority may issue revenue bonds in such principal amounts to accomplish the above stated purposes. The Authority is governed by a nine-member board of directors of which five are appointed by the Governor and approved by the Senate and two members each by the President of the Senate and the Speaker of the House. The directors serve terms of five years, may be re-appointed for one full subsequent term, and can be removed only for cause.

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Arizona Housing Finance Authority (the Authority) – A.R.S. § 41-3902 established the Authority to issue bonds for residential dwelling units and multifamily residential rental projects in rural areas. The Authority may also establish mortgage credit certificate programs to finance residential dwelling units in rural areas. The Authority shall notify a city, town, county, tribal government, or existing corporation (as defined in A.R.S. § 35-701) that a multifamily residential rental project is planned for its jurisdiction and, before proceeding, shall obtain written consent from the governing body of the city, town, county, or tribal government. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve terms of seven years, and can be removed only for cause.

Joint Ventures

As described in Note 12, the U of A participates in joint ventures. In accordance with U.S. GAAP, the financial activities of these joint ventures are not included in the State's financial statements.

B. BASIS OF PRESENTATION

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the State as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government and its component units. The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the State and between the State and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The **Statement of Net Position** presents the State's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The total of assets and deferred outflows of resources, minus the total of liabilities and deferred inflows of resources, is reported as net position. Both the governmental and business-type activities are presented on a consolidated basis by column.

The **Statement of Activities** presents a comparison between direct expenses and program revenues for each function of the State's governmental activities, and its different business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. The State does not allocate indirect expenses to programs or functions.

Program revenues include:

- i charges to customers or applicants for goods, services, privileges provided, and fines or forfeitures
- i operating grants and contributions
- i capital grants and contributions, including special assessments

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Interfund balances have been eliminated from the government-wide financial statements to the extent that they occur within either the governmental or business-type activities. Balances between governmental and business-type activities are presented as internal balances and are eliminated in the total column. Revenues and expenses associated with reciprocal transactions within governmental or within business-type activities have not been eliminated.

Fund financial statements provide information about the State's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

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Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The State reports the following major governmental funds:

The General Fund – is the State’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund – accounts for all financial transactions applicable to the general operations of the Arizona Department of Transportation (ADOT). The ADOT builds and maintains the State’s highway system and the Grand Canyon Airport. The fund primarily receives revenues from motor vehicle and fuel taxes and federal grants.

The Land Endowments Fund – holds lands granted to the State by the Federal government for the benefit of public schools and other public institutions. Principal is maintained intact and investment earnings and lease revenues are distributed to beneficiaries in accordance with State statute.

The State reports the following major enterprise funds:

The Universities – account for transactions of the State’s three universities, which comprise the State’s university system.

The Industrial Commission Special Fund (Special Fund) – accounts for the payment of workers’ compensation claims that are not covered by the Risk Management Division of the Department of Administration, private insurance carriers, and self-insured employers.

Additionally, the State reports the following fund types:

Internal Service Funds – account for insurance coverage, employee benefits, automotive maintenance and operation, highway equipment rentals, and data processing and telecommunication services provided to State agencies on a cost-reimbursement basis. It is the policy of the State to classify immaterial proprietary fund activities in governmental funds. This policy helps to reduce the number of funds reported in the financial statements to the minimum amount needed. These funds allocate a fixed rate payroll processing charge among all agencies, allocate postage and mailing costs among all agencies, or arrange for the sale of the State’s office equipment and motorized vehicles at public auctions.

Pension and Other Employee Benefit Trust Funds – account for the activities of the ASRS, the PSPRS, the EORP, and the CORP, for which the State acts as a trustee. These retirement and other post-employment benefit plans accumulate resources to pay pension, health insurance premium subsidies, and long-term disability benefits of State employees and employees of other governmental entities participating in the plans.

Investment Trust Funds – account for transactions by local governments and political subdivisions that elect to participate in the State Treasurer’s investment pools. The Treasurer acts as trustee for the original deposits made into the investment pools.

Agency Funds – account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. However, the agency funds are custodial in nature and do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenues as soon as all eligibility requirements the provider imposed have been met.

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Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 31 days after year-end, except for the Department of Economic Security (DES) revenue, reported in the General Fund, and the Transportation and Aviation Planning, Highway Maintenance and Safety Major Fund, as well as certain non-major governmental funds administered by the DES and the ADOT, which consider revenues to be available if collected within 60 days after year-end. Those revenues susceptible to accrual are federal reimbursements, highway user revenue tax, and state sales tax. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expense is incurred for purposes for which restricted and unrestricted net position are available, the State considers restricted and unrestricted amounts to have been spent in that order.

D. DEPOSITS AND INVESTMENTS

1. Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as “Cash and Cash Equivalents” is equal to the total of the amounts on the Statement of Net Position (unrestricted/restricted) “Cash”, “Cash with U.S. Treasury”, “Cash and pooled investments with State Treasurer”, “Cash held by trustee” and “Collateral investment pool”. For purposes of the Statement of Cash Flows, the State considers only those highly liquid debt instruments with an original maturity of ninety days or less to be cash equivalents.

- i *Cash (not with State Treasurer)* – includes un-deposited receipts, petty cash, bank accounts, non-negotiable certificates of deposit, and demand deposits with banking institutions other than the State Treasurer.
- i *Cash with U.S. Treasury* – consists of unemployment compensation contributions from Arizona employers that are deposited in a trust fund maintained by the United States Treasury.
- i *Cash and pooled investments with State Treasurer* – consists of a centralized management of most State cash resources maintained by the State Treasurer. From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the State Treasurer’s pooled investments are described in Note 2.
- i *Cash held by trustee* – consists of capital projects and bond debt service funds invested by the trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit, commercial paper, and money market funds.
- i *Collateral investment pool* – consists of cash received as collateral on securities lending transactions and investments made with that cash. The State records the collateral received as an asset. A corresponding liability is also recorded for such securities lending transactions.

2. Investment Valuation

Investments maintained by the State Treasurer are reported at fair value using State Street prices, as determined by independent, industry recognized data vendors who provide values that are either exchange based or matrix based. Equities are priced utilizing the primary exchange closing price. All bonds are priced using an evaluated bid, except securities with a remaining maturity of 90 days or less are priced at amortized cost (amortizing premium/accreting discount on a straight-line to maturity method). The evaluated bid is based on a compilation of primary observable market information or a broker quote in a non-active market.

The ASRS’ publicly traded investments are reported at fair value determined by the custodial agents. The agents’ determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. ASRS’ derivative instruments, which consist of futures, forward contracts, options, swaps, rights, and warrants, are measured at fair value. Changes in fair values of derivative instruments are reported as net increase (decrease) in fair value of

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investments. The fair value of limited partnership investments are based on estimated current values and accepted industry practice. Fair value is based on estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, the ASRS, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Security transactions and any resulting gains or losses are accounted for on a trade date basis.

For the PSPRS, the EORP, and the CORP, investments are reported at fair market value. Short term investments are reported at cost plus accrued interest. Equity securities are valued at the last reported sales price. Fixed income securities are valued using the last reported sales price or the estimated fair market value as determined by the fixed income broker/dealers plus accrued interest. Investments in hedge funds are valued monthly at the last reported valuations. Limited partnership investments in credit opportunities, private equity, real assets, and real estate are valued on a quarterly or monthly basis at last reported valuations adjusted by any subsequent cash flows. Investment income is recognized as earned.

E. TAXES RECEIVABLE

Taxes receivable include amounts owed by taxpayers for prior periods including assessments for underpayments, penalties, and interest. In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting. The remainder is recorded as deferred inflows of resources.

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, and payments with final returns and assessments that relate to income earned through June 30, 2014. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2014, but not collected until the following month.

F. INVENTORIES

Inventories consist of expendable supplies held for consumption in all funds and merchandise intended for sale to customers in the proprietary funds. Inventories are stated at cost using the first-in, first-out method, weighted average, or lower of cost or market. In the governmental funds, inventories are accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

G. CAPITAL ASSETS

Capital assets are stated at cost at the date of acquisition or, if donated, at the appraised or estimated fair market value at the date received. Interest incurred during the construction of capital assets is only capitalized in the proprietary funds.

Most capital assets are depreciated over their estimated useful lives. However, the State reports most infrastructure assets using the modified approach, as provided by the GASB. Under this approach, rather than being depreciated, costs to maintain and preserve these assets are expensed. This approach is discussed further in the Required Supplementary Information portion of this report. The State has adopted a general policy for capitalization thresholds, depreciation, and estimated useful lives of capital assets. In addition, the State has approved alternative policies for some State agencies.

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Depreciable capital assets are depreciated on a straight-line basis. Capitalization thresholds (the dollar values at which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets being depreciated in the government-wide financial statements and the proprietary funds are as follows:

Asset Category	General State Policy		Other Authorized Agency Policies	
	Capitalization Threshold	Estimated Useful Life (years)	Capitalization Threshold	Estimated Useful Life (years)
Land	All capitalized	Not depreciated	All capitalized	Not depreciated
Buildings	All capitalized	25-40	\$0-\$100,000	10-50
Improvements other than buildings	\$5,000	15	-	-
Equipment	\$5,000	3-15	\$0-\$5,000	3-25
Infrastructure	All capitalized	Not depreciated	\$0-\$100,000	10-100
Software	\$1,000,000	5-10	\$1,000,000-\$5,000,000	5-10
Other intangibles	\$100,000	Varied	\$100,000	Varied

Other intangibles include licenses and permits, patents, copyrights and trademarks, rights-of-way and easements, and natural resource extraction rights. These are amortized over the shorter of the legal or estimated useful life if the useful life is definite or limited. If the life is indefinite or unlimited, they are not amortized. In addition, rights-of-way and easements are amortized only if the value is separable from the underlying land and natural resource extraction rights are not amortized unless the value of the underlying asset is identifiable.

The State is trustee for approximately 9.2 million acres of land acquired through U.S. Government land grants in the early 1900's. The State acquired a substantial portion of this land at no cost and its fair market value at acquisition has not been reliably estimated. Accordingly, this land is not reported in the accompanying financial statements.

The State has interest in and maintains significant special collections, works of art, and historical treasures. Except for ASU, all special collections, works of art, and historical treasures which are held for financial gain are capitalized at fair market value at the date of acquisition or donation. Those special collections, works of art, and historical treasures which are held for educational, research, or public exhibition purposes are not capitalized, as they are not subject to disposal for financial gain or encumbrance. Such items are inventoried for property control purposes. ASU capitalizes all works of art and historical treasures with a unit cost of \$5,000 or more.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 4 and 7, respectively.

H. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources represent a consumption of net position by the government that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources increase net position, similar to assets.

I. INVESTMENT EARNINGS

Investment earnings are composed of interest, dividends, and net changes in fair value of applicable investments.

J. SCHOLARSHIP ALLOWANCES

Student tuition and fee revenues, and certain other revenues earned by the three State Universities are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Fund Net Position. A scholarship discount and allowance is the difference between the stated charge for goods and services provided and the amount that is paid by the student or third party making payment on behalf of the student. Accordingly, some types of student financial aid such as fee waivers, Pell grants, and scholarships awarded by the Universities are considered to be scholarship allowances. These allowances are netted against applicable revenues in the Statement of Revenues, Expenses and Changes in Fund Net Position.

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K. UNEARNED REVENUE

In the government-wide, governmental fund, and proprietary fund financial statements, unearned revenue is recorded when cash, receivables, or other assets are received prior to their being earned.

L. COMPENSATED ABSENCES

In the government-wide and proprietary fund financial statements, the State accrues liabilities for compensated absences as required by the GASB. In the governmental fund financial statements, liabilities for compensated absences are not accrued, because they are not considered due and payable.

In general, State employees accrue vested annual leave at a variable rate based on years of service. Except for uncovered State employees and University employees, an employee generally forfeits accumulated annual leave in excess of 240 hours as of the last day of the last pay period for a calendar year, unless the Director of the Department of Administration authorizes an exception. Uncovered State employees shall forfeit accumulated annual leave in excess of 320 hours as of the end of each calendar year, unless an exception is authorized. University employees may accumulate up to 264 hours of vacation, and any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Except for University employees, an employee who separates from State service is paid for all unused and unforfeited annual leave at the employee's rate of pay at the time of separation. University employees, upon termination of employment, are paid all unused vacation benefits not exceeding 176 hours (annual accrual amount), depending on years of service and full-time equivalent employment status.

Some employees accumulate compensatory leave for time worked over 40 hours per week. An employee may accumulate up to 240 hours of compensatory leave (480 hours if working in a public safety activity or an emergency response activity). An employee who separates from State service is paid for all unused compensatory leave at either the employee's average base salary during the last three years of employment or final base salary, whichever is higher.

For sick leave policy, see Note 13.C.

M. LONG-TERM OBLIGATIONS

In the government-wide and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Amounts due within one year are reported as current liabilities, and amounts due thereafter are reported as non-current liabilities. Premiums and discounts on revenue bonds and COPs are deferred and amortized over the life of the debt instrument using the straight-line method or the effective interest method. Bonds and COPs are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize proceeds from revenue bonds, COPs, other issuances, and premiums and discounts on debt as other financing sources and uses in the current period. Long-term liabilities are more fully described in Note 7.

N. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent an acquisition of fund balance that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources decrease fund balance, similar to liabilities.

O. NET POSITION/FUND BALANCES

The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is "Net Position" on the government-wide, proprietary, and fiduciary fund financial statements. The difference between (a) fund assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is "Fund Balance" on the governmental fund financial statements.

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Net position is reported in three categories:

Net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions, voter initiatives, or court orders.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified.

In the governmental fund financial statements, fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Five classifications are available for reporting fund balances:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted or committed) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balances have constraints placed upon the use of the resources that are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions, voter initiatives, or court orders.

Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Arizona State Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the Legislature, creating, modifying, or rescinding fund balance commitments.

Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. The State does not have policies or procedures comparable to the policies that underlie this classification and, accordingly, does not report assigned fund balances.

Unassigned fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When an expenditure is incurred for purposes for which restricted, committed, and unassigned fund balance is available, the State considers restricted, committed, and unassigned amounts to have been spent in that order.

Budget Stabilization Fund

The State's Budget Stabilization Fund (BSF) was enacted in 1990 by A.R.S. § 35-144. The BSF is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. The BSF is also known as the "Rainy Day Fund."

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The amount is based on calculations from the Arizona Economic Estimates Commission (EEC). The EEC compares the annual growth rate of inflation adjusted Arizona personal income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent 7 years. AZPI in the BSF formula is defined as total AZPI less transfer payments, adjusted by the gross domestic product price deflator index. If the annual growth rate exceeds the trend growth rate, the "excess" percent multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF. If the annual growth rate of AZPI is both less than 2% and less than the trend growth rate, the deficiency when multiplied

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by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. The BSF's total fund balance cannot be larger than 7% of the current year's General Fund revenues, excluding the beginning balance.

The budgets developed by the Governor and the Joint Legislative Budget Committee and submitted to the State Legislature at the start of each regular session include estimates of the amount to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount is done by the EEC on June 1 of the budget year. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. Additionally, by a two-thirds majority, the State Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.

The BSF's fund balance, including earnings on investments, as of June 30, 2014, was \$455.3 million.

P. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for periods beginning after December 15, 2012. The State has implemented the requirements of this standard and, as a result, beginning net position was restated for the business-type activities and component units.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The State has implemented the requirements of this standard but they had no effect on the financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statements No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25 and No. 50 as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The State has implemented the requirements of this standard but they had no effect on the financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The State has implemented the requirements of this standard but they had no effect on the financial statements.

NOTE 2. DEPOSITS AND INVESTMENTS

A. DEPOSITS AND INVESTMENT POLICIES

The State's deposits and investments are primarily under the control of the State Treasurer, the Retirement Systems, the Universities, and the Industrial Commission (the Commission). These entities maintain the majority of the deposits and investments of the primary government. The investment policies of these organizations are defined according to State statutes, or a governing board, or both, and are described below.

A.R.S. § 35-312, § 35-313, and § 35-314 authorize the State Treasurer to invest operating, trust, and permanent endowment fund monies. Monies deposited with the State Treasurer by State agencies are invested by the State Treasurer in a pooled fund. Any interest earned is allocated monthly into each respective fund based on average daily cash balances. There is no income from investments associated with one fund that is assigned to another fund.

The State statutes and the State Treasurer's investment policies designed to administer these statutes restrict investments to obligations of the U.S. Government and its agencies, obligations or other evidence of indebtedness of the State and certain local

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government subdivisions, negotiable certificates of deposit, bonds, debentures and notes issued by entities which are U.S. dollar denominated, commercial paper issued by entities which are U.S. dollar denominated, bankers acceptances, collateralized repurchase agreements, money market mutual funds, exchange traded funds, equities, and other securities. The State Treasurer is not allowed to invest in foreign investments unless the investment is denominated in U.S. dollars.

The State Treasurer maintains external investment pools [the Local Government Investment Pool (LGIP), Local Government Investment Pool - FF&C, Local Government Investment Pool – Medium Term, and Local Government Investment Pool – Medium Term FF&C]. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with A.R.S. § 35-311.

In September 2008, the State agencies' and an external investment pool's share of the Lehman Brothers bond value of \$39.4 million was transferred to the Lehman Brothers Pool due to Lehman Brothers filing for Chapter 11 bankruptcy protection on September 15, 2008. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities.

In December 2011, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Modified Third Amended Lehman Brothers Joint Plan of Liquidation. During the current year, approximately \$4.8 million was received as payout of funds being held by the Indenture Trustee for Lehman Brothers securities. The payout received was allocated to participants based on the participant's share balance and then transferred to the LGIP, reducing the carry or cost basis in the Lehman Brothers Pool. As of June 30, 2014, the carry or cost basis and the fair value for the Lehman Brothers Pool were \$28.8 million and \$5.4 million, respectively. There was a distribution in October 2014, and future distributions are generally expected every six months thereafter. The remaining amount to be recovered is unknown.

The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Position Value (NPV) of the shares. The NPV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed.

The Central Arizona Water Conservation District is an individual investment account.

The State Treasurer's deposits and investments disclosures include the amounts reported by the State's component units as (unrestricted/restricted) "Cash and pooled investments with State Treasurer" in the accompanying financial statements, as applicable.

State statutes authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. As such, investment management shall discharge the duties of their position with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a "prudent person" acting in a like capacity and familiar with the same matters would use in the conduct of an enterprise of a like character and with like aims as that of the system.

The ASRS invests in short-term securities, obligations of the U.S. government or agencies of the U.S. government, corporate bonds, common and preferred stocks (domestic and foreign), mortgages, derivatives, commodities, real estate, private equity, and opportunistic debt and equity investments. Per A.R.S. § 38-718, no more than 80% of the ASRS' assets may be invested at any given time in equities, measured at market value. No more than 40% of the ASRS' assets may be in non-U.S. public investments, measured at market value. No more than 60% of the ASRS' assets may be invested internally, measured at market value. No more than 10% of the ASRS' assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank, measured at market value. Subject to the limitations noted above, the ASRS Board may authorize the ASRS Director to make investments that are designated by the ASRS Board and that do not exceed 60% of the assets of the investment account measured at cost. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

Per A.R.S. § 38-848D, § 38-803A(4), and § 38-883A(4), the PSPRS, the EORP, and the CORP, respectively, may not invest at any given time more than 80% of the combined assets of the system or other plans that the Board of Trustees manages in corporate stocks, based on cost value of such stocks irrespective of capital appreciation. In addition, the PSPRS, the EORP, and the CORP investments shall be restricted to stocks and exchange traded funds that, except for bank and insurance stocks and

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membership interests in limited liability companies, are either: 1) listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended, 2) designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended, 3) listed or approved on issuance for listing on an exchange registered under the laws of this State or any other State, 4) listed or approved on issuance for listing on an exchange registered of a foreign country with which the U.S. is maintaining diplomatic relations at the time of purchase, except that no more than 20% of the combined assets of the system or other plans that the board manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation, or 5) an exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the Investment Company Act of 1940, and that is both traded on a public exchange and based on a publicly recognized index. Not more than 5% of the combined assets of the system or other plans that the board manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the U.S. government or corporate stock issued by a bank or insurance company. Not more than 5% of the voting stock of any one corporation shall be owned by the system and other plans that the board administers, except that this limitation does not apply to membership interests in limited liability companies.

The ABOR governs the investment policies of the Universities. The Universities are generally limited to investing their pooled operating funds in collateralized certificates of deposit and repurchase agreements, U.S. Treasury securities, Federal agency securities, investment grade corporate bonds, or in the LGIP administered by the State Treasurer. Investment of capital project funds is also governed by the financing indenture agreements. For endowment investments, ABOR policy dictates that these funds are to be invested under the direction of an investment committee designated by the president of each university. The investment committee is responsible for advising on the definition, development, and implementation of investment objectives, policies, and restrictions. However, if donors restrict the investments, ABOR policy requires the University to invest those funds separately as directed by the donor, and the individual endowments bear all changes in value.

Per A.R.S. § 23-1065, the Commission's investment committee is responsible for prescribing investment policies and supervising the investment activities of the Commission. The Commission requires that their investment policy be responsive to the unpredictable nature of the incidence and severity of claims, the long periods over which losses may be paid, and the effect on both claims and losses of increases in treatment and rehabilitation costs. The investment committee may invest in any legal investment authorized under A.R.S. § 38-718.

B. CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. The State Treasurer's, the Retirement Systems', and the Universities' deposits of State treasury monies with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. Surety collateral for the Universities and the Retirement Systems must be equal to at least 100% of the bank balance required to be collateralized (102% for the State Treasurer). Beyond this requirement, these organizations do not have a formal policy specifically addressing custodial credit risk on deposits, except for the State Treasurer. The State statutes require surety collateral for the State Treasurer to consist of either: 1) U.S. Government obligations, State obligations, or obligations of counties or municipalities within the State, 2) State Treasurer's warrant notes, or 3) the safekeeping receipt of the financial institution accepting the deposit. As of June 30, 2014, the State had uninsured and uncollateralized deposits in the amount of \$62.7 million and \$14.9 million in deposits that were uninsured with collateral held by the pledging financial institution's trust department or agent, but not in the State's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The State does not have a formal policy in regards to custodial credit risk for investments. As of June 30, 2014, the State had \$117.4 million in securities that were uninsured, not registered in the State's name, and held by either the counterparty or counterparty's trust department or agent, but not in the State's name.

C. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State manages interest rate risk using the segmented time distribution, weighted average maturity, and effective duration methods.

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The State Treasurer manages interest rate risk by incorporating A.R.S. limitations into their investment policy and setting forth various thresholds or parameters relating to interest rate risk in accordance with each investment pool's portfolio structure. The State Treasurer's policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored monthly by measuring the weighted average maturity and/or duration.

The ASU's policy for the operating funds limits the final maturity of any fixed-rate security or variable-rate security to five years from the settlement date of the purchase. The endowment funds portfolio has no such limitations. The capital projects fund's portfolio is not limited as to the overall maturity of its investments, with the funds invested per the financing indentures to coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively.

The Commission approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool.

The following table presents the State Treasurer's, the ASU's, and the Commission's weighted average maturity in years by investment type as of June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	Weighted Average Maturity (in years)
Asset backed securities	\$ 614,520	1.95
Certificates of deposit (negotiable)	207,661	0.05
Commercial mortgage backed securities	104,095	28.21
Commercial paper	1,067,517	0.10
Corporate notes & bonds	1,899,909	3.26
FDIC certificates of deposit	188,817	0.13
Government bonds	339,336	4.05
Money market mutual funds	189,580	0.07
Repurchase agreements	1,925,000	0.00
U.S. agency mortgage backed securities	1,310,155	21.22
U.S. agency mortgage backed securities – full faith	500,867	19.29
U.S. agency securities	1,151,936	2.49
U.S. agency securities – full faith	60,316	2.96
U.S. Treasury securities	1,500,637	2.19
Other	160	32.00
Total	<u>\$ 11,060,506</u>	5.03

The ASRS has not adopted a specific formal policy for interest rate risk, but does set more restrictive requirements in its contracts with money managers. The ASRS utilizes effective duration to identify and manage its interest rate risk. Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

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The following table presents ASRS' effective duration by investment type as of June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	Effective Duration (in years)
Asset backed securities	\$ 5,363	1.60
Commercial mortgage backed securities	67,075	1.50
Corporate bonds	1,563,343	4.60
Emerging market debt	417,186	*
Fixed income mutual funds	735,857	*
Government agency CMOs	785,487	2.80
Government bonds	1,103,905	6.30
Government mortgage backed securities	76,120	3.80
Government related bonds	256,568	5.40
Opportunistic debt	930,906	*
Private debt	1,201,508	*
U.S. Treasury securities	760,704	0.30
Total	<u>\$ 7,904,022</u>	3.97

* Duration calculations for some securities are not available.

The PSPRS, the EORP, and the CORP do not have a formal policy in regards to interest rate risk. The NAU's and the U of A's investment policies for their operating funds limit the maximum maturity of any fixed-rate or variable-rate security to five years from the settlement date of purchase. The NAU's and the U of A's endowment funds have no such limitation.

The following table presents the interest rate risk for the PSPRS, the EORP, the CORP, the NAU, the U of A, and other State agencies utilizing the segmented time distribution as of June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)					
		Less than 1	1-5	6-10	11-15	16-20	More than 20
Certificates of deposit (negotiable)	\$ 27,691	\$ 6,878	\$ 20,813	\$ -	\$ -	\$ -	\$ -
Collateralized bond obligations (CBOs)	22,093	-	12,350	-	-	-	9,743
Corporate notes & bonds	880,240	13,147	198,704	17,932	12,979	3,858	633,620
Fixed income mutual funds	15,256	5,316	3,791	5,999	150	-	-
Government bonds	3,649	1,100	2,549	-	-	-	-
Money market mutual funds	155,534	155,534	-	-	-	-	-
U.S. agency securities	253,844	143,444	81,107	189	-	10,531	18,573
U.S. Treasury securities	31,420	-	31,347	73	-	-	-
Total	<u>\$ 1,389,727</u>	<u>\$ 325,419</u>	<u>\$ 350,661</u>	<u>\$ 24,193</u>	<u>\$ 13,129</u>	<u>\$ 14,389</u>	<u>\$ 661,936</u>

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The following table presents the State's investments at fair value that are considered to be highly sensitive to interest rate changes as of June 30, 2014 (expressed in thousands):

Interest Rate Terms	Corporate Notes & Securities	U.S. Agency Securities	Other	Total
Investments (including full faith) with coupon tied to the London Interbank Offered Rate (LIBOR) plus/minus a fixed basis point which resets monthly, quarterly, or semi-annually.	\$ 567,937	\$ 207,321	\$ 29,558	\$ 804,816
Asset backed securities (including full faith) with coupon tied to the LIBOR plus/minus a fixed basis point which resets from monthly to quarterly.	196,802	-	-	196,802
Mortgage backed securities (including full faith) - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminishes fair value of the investment.	97,343	1,811,022	-	1,908,365
Other investments with high sensitivity to rate changes.	-	150,348	64,999	215,347
Total	\$ 862,082	\$ 2,168,691	\$ 94,557	\$ 3,125,330

D. CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment.

State statutes and the State Treasurer's investment policy require that commercial paper must be rated by at least two nationally recognized statistical rating organizations (NRSROs) and that the ratings assigned by at least two of the NRSROs be of the two highest rating categories for short-term obligations. Corporate bonds, debentures, notes, and negotiable certificates of deposit must carry a minimum Baa or better rating from Moody's Investor Service (Moody's) or a BBB or better rating from Standard and Poor's Rating Service (S & P) or their successors. For securities of, or any other interests in, any open-end management type investment company or investment trust, including exchange traded funds, the underlying investments must be securities which are allowable under State statutes. For investments not rated by Moody's, Fitch rating information is used. There is no statute or investment policy on ratings or credit quality for obligations issued by the U.S. Government or its agencies or repurchase agreements. The underlying securities for repurchase agreements are implicitly guaranteed by the U.S. Government, as some are collateralized with U.S. agency securities.

The ASRS has not adopted a formal policy with respect to credit risk.

The PSPRS', the EORP's, and the CORP's investment policies are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. The fixed income portfolio must have a minimum weighted average quality rating of A3 by Moody's and A- by S & P. Fixed income securities must have a minimum quality rating of Baa3 by Moody's and BBB- by S & P at the time of purchase. The portion of the bond portfolio in securities rated Baa3 through Baa1 by Moody's and BBB- through BBB+ by S & P must be 20% or less of the fair value of the fixed income portfolio. Commercial paper must have a minimum quality rating of P-1 by Moody's and A-1 by S & P at the time of purchase.

The Universities' policies mirror that of the ABOR, which requires that negotiable certificates of deposit, corporate bonds, debentures and notes, bankers acceptances, and State of Arizona bonds carry a minimum BBB or better rating by S & P or Baa or better rating by Moody's; and that commercial paper be rated by at least two NRSROs and be of the two highest rating categories for short-term obligations of at least two of the NRSROs. In addition, the Universities do not have formal policies that specifically address credit risk over endowment funds. The Universities' endowment funds are primarily invested in their Foundations' endowment pools, which are not rated. The Foundations' investment committees manage the credit risk of the pools' investments. Also, the ASU's capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture.

The Commission's investment policy requires that purchases of fixed income securities will consist of U.S. Treasury or Federal agency obligations or those bonds rated not less than Baa3 by Moody's or BBB- by S & P, except for fixed income managers who have been hired to manage funds in a specialized manner (high yield).

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The following table presents the State's investments which were rated by S & P and/or an equivalent national rating organization as of June 30, 2014. The ratings are presented using S & P's rating scale (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	CCC Thru D	A-1	Not Rated
Asset backed securities	\$ 568,249	\$ 441,208	\$ 1,564	\$ 14,024	\$ -	\$ -	\$ -	\$ -	\$ 106,869	\$ 4,584
CBOs	22,093	-	-	-	-	-	-	-	-	22,093
Certificates of deposit (negotiable)	217,911	-	28,237	20,921	-	-	-	-	158,503	10,250
Commercial mortgage backed securities	171,065	160,844	-	5,391	4,024	-	-	-	-	806
Commercial paper	1,067,517	-	-	-	-	-	-	-	1,067,517	-
Corporate notes & bonds	4,343,492	69,962	509,428	1,278,776	712,425	329,215	541,184	222,628	-	679,874
Emerging market debt	417,186	-	-	-	-	-	-	-	-	417,186
Fixed income mutual funds	751,113	-	-	-	-	-	-	-	-	751,113
Government agency CMOs	785,487	-	785,487	-	-	-	-	-	-	-
Government bonds	1,433,996	36,786	1,021,088	92,140	203,233	14,931	-	-	24,034	41,784
Government mortgage backed securities	76,120	-	76,120	-	-	-	-	-	-	-
Government related bonds	256,568	26,025	221,217	9,326	-	-	-	-	-	-
Money market mutual funds	345,114	345,114	-	-	-	-	-	-	-	-
Opportunistic debt	930,906	-	-	-	-	-	-	-	-	930,906
Private debt	1,201,508	-	-	-	-	-	-	-	-	1,201,508
Repurchase agreements	600,000	-	600,000	-	-	-	-	-	-	-
U.S. agency mortgage backed securities	1,288,801	-	1,285,489	-	-	-	-	-	-	3,312
U.S. agency securities	1,376,676	19,986	1,356,690	-	-	-	-	-	-	-
Other	113,919	-	-	-	-	-	-	-	-	113,919
Total	\$15,967,721	\$1,099,925	\$5,885,320	\$1,420,578	\$919,682	\$344,146	\$541,184	\$222,628	\$1,356,923	\$4,177,335

E. CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the Universities', and the Commission's investment policies provide that no more than 5% of their investments shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. However, securities issued by the U.S. government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempt. The State Treasurer also exempts from this policy the purchase of Treasurer Warrant Notes for the State Agencies Diversified pool, provided the maximum amount of the notes purchased shall not exceed 50% of the market value of the pool, bonds issued by an agency of the State, and pre-refunded municipal bonds issued by any entity that are invested in obligations issued or guaranteed by the U.S. government or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities. The PSPRS', the EORP's, and the CORP's investment policies state that no more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency, or corporation other than bonds issued as direct obligations of, and fully guaranteed by, the U.S. Government. At June 30, 2014, investments in any one issuer, that were more than 5% of the primary government's total investments, are as follows: (i) Federal Home Loan Mortgage Corporation (fair value of \$683.6 million, or 5.6%) and (ii) Federal National Mortgage Association (fair value of \$924.0 million, or 7.6%).

F. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit. The State does not have a formal policy regarding foreign currency risk. The ASRS, the PSPRS, the EORP, and the CORP are the primary State agencies that have foreign currency risk. Per A.R.S. § 38-718, no more than 40% of the ASRS' assets may be invested in foreign securities and those investments shall be made only by investment managers with expertise in

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those investments. The ASRS has not adopted a formal policy that is more restrictive. According to State statutes, the PSPRS, the EORP, and the CORP shall not invest more than 20% of the combined assets of the system or other plans that the Board of Trustees manages in foreign securities. The following table summarizes the State's foreign currency risk as of June 30, 2014 (expressed in thousands):

Foreign Currency Risk by Investment Type at Fair Value					
Currency	Short Term	Fixed Income	Equities	Other Investments	Total
Australian Dollar	\$ 14	\$ -	\$ 74,954	\$ -	\$ 74,968
Brazilian Real	186	53,587	27,975	-	81,748
British Pound Sterling	1,646	-	540,463	40,731	582,840
Canadian Dollar	(5,716)	-	108,344	-	102,628
Columbian Peso	67	17,951	4,172	-	22,190
Danish Krone	163	-	30,168	-	30,331
Euro Currency	59,219	-	647,753	344,628	1,051,600
Hong Kong Dollar	552	-	80,769	-	81,321
Hungarian Forint	-	6,421	-	-	6,421
Indonesian Rupiah	127	22,071	6,602	-	28,800
Israeli Shekel	87	-	7,500	-	7,587
Japanese Yen	4,046	-	432,529	-	436,575
Malaysian Ringgit	13	23,344	6,409	-	29,766
Mexican Peso	10	30,504	9,954	104,057	144,525
New Romanian Leu	79	4,337	-	-	4,416
New Russian Ruble	-	26,409	-	-	26,409
New Taiwan Dollar	426	-	21,420	-	21,846
New Zealand Dollar	34	-	3,586	-	3,620
Nigerian Naira	228	6,192	-	-	6,420
Norwegian Krone	256	-	12,954	-	13,210
Peruvian Nouveau Sol	-	5,609	-	-	5,609
Philippine Peso	-	1,991	1,621	-	3,612
Polish Zloty	14	25,507	2,765	-	28,286
Singapore Dollar	417	-	24,121	-	24,538
South African Rand	45	36,909	12,461	-	49,415
South Korean Won	37	-	40,900	-	40,937
Swedish Krona	95	-	41,928	-	42,023
Swiss Franc	272	-	161,714	-	161,986
Thailand Baht	-	6,873	2,481	-	9,354
Turkish Lira	58	27,436	2,773	-	30,267
Total	\$ 62,375	\$ 295,141	\$ 2,306,316	\$ 489,416	\$ 3,153,248

G. SECURITIES LENDING

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. A corresponding liability is also recorded for such securities lending transactions.

1. Industrial Commission

State statutes and the Commission's policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. The custodial bank, The Northern Trust Company, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lender's exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 2014. The Northern Trust Company's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned

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for collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. U.S. securities are loaned for collateral valued at 102% of the market value of securities plus any accrued interest. International securities are loaned for collateral valued at 105% of the market value of securities plus any accrued interest. The market value at June 30, 2014 for loaned securities collateralized by cash and non-cash collateral was \$44.0 million and \$28 thousand, respectively. As part of the securities lending transactions, The Northern Trust Company received cash and non-cash collateral valued at \$44.9 million and \$29 thousand, respectively, at June 30, 2014. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower although the average term of the Commission's loans was approximately 55 days as of June 30, 2014. Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 37 days as of June 30, 2014. There are no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to the Commission on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Statement of Net Position. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2014, the Commission had \$44.9 million outstanding as payable for securities lending. A maximum restriction on the amount of securities that can be lent out at any one time of \$43.976 million was set by the Commission on September 29, 2008.

2. Arizona State Retirement System

The ASRS is permitted by A.R.S. § 38-718(G) to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with borrowers to loan securities and have the same securities redelivered at a later date. Securities eligible for loan include U.S. fixed income securities, U.S. equities, and international equities. The ASRS currently receives as collateral at least 102% of the market value of the loaned securities and maintains collateral at no less than 100% for the duration of the loan. At year-end, the ASRS had limited counter party risk to borrowers because the amount the ASRS owes the borrowers exceeds the amount the borrowers owe the ASRS. Securities loaned are initially fully collateralized by cash (USD and Euro), U.S. Government or agency securities, sovereign debt, corporate bonds and equities. Cash collateral may be reinvested (under certain constraints) in: a) instruments issued or fully guaranteed by the U.S. Government, Federal agencies, or sponsored agencies or sponsored corporations, b) instruments issued by domestic corporations including corporate notes and floating rate notes, c) obligations of approved domestic and foreign banks, d) U.S. dollar-denominated instruments issued by sovereigns, sovereign supported credits, and instruments of foreign banks and corporations, e) repurchase agreements, f) insurance company funding agreements, guaranteed investment contracts and bank investment contracts, and g) money market mutual funds. The ASRS records the collateral received as an asset and the same amount as an obligation for securities on loan. The maturities of the investments are closely matched to those of the security loans to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral are classified as an asset on the Statement of Fiduciary Net Position. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2014, the fair value of securities on loan was \$95.8 million; of which \$15.0 million were cash collateralized loans. Cash of \$15.4 million received as collateral for securities loaned was reinvested and had a net position value of \$15.0 million, as of June 30, 2014. The securities lending payable at June 30, 2014 was \$15.4 million. The ASRS does not have the ability to pledge or sell the collateral unless there is a borrower default. There are no restrictions on the dollar amount of security loans that may be made by the ASRS. The ASRS is indemnified against gross negligence and borrower default by the lending agents, but is not indemnified against cash collateral reinvestment risk.

3. Public Safety Personnel Retirement System, Elected Officials' Retirement Plan, and Corrections Officer Retirement Plan

The PSPRS, the EORP, and the CORP are permitted by A.R.S. Title 38, Chapter 5, Articles 4, 3, and 6, respectively, to enter into securities lending transactions. The PSPRS, the EORP, and the CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, the EORP, and the CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, the EORP, and the CORP require collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2014, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were \$433.8 million, \$23.4 million, and \$112.0 million, respectively. At June 30, 2014, the fair value of the associated collateral for the PSPRS, the EORP, and the CORP were \$446.4 million, \$24.1 million, and \$115.3 million, respectively. The PSPRS, the EORP, and the CORP are

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indemnified for broker default by the securities lending agent. The PSPRS, the EORP, and the CORP have no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the retirement system or plan.

4. State Treasurer

The State Treasurer is permitted under A.R.S. § 35-313 and § 35-324 to enter into securities lending transactions. The State Treasurer's custodial bank manages the securities lending program through a contractual agreement. At fiscal year-end, the State Treasurer had no credit risk exposure to borrowers because the amount the State Treasurer owes to the borrowers exceeds the amount the borrowers owe the State Treasurer. All securities are eligible for loan, but equities and U.S. Treasuries comprise a majority of securities that are on loan. There are no restrictions on the dollar amount of security loans that may be made by the State Treasurer. Securities are loaned for collateral that may include cash (U.S. currency), U.S. and international equities, and other assets permissible under Rule 15c3-3 under the Securities Exchange Act of 1934. Securities are loaned for collateral valued at not less than 102% of the market value of the securities loaned at the close of trading on the preceding business day. Investments made with cash collateral are done on an individual investment pool basis and are restricted to the limitations for that investment pool set forth in the State Treasurer's investment policy, except for investments made for certain endowment equity pools. Permitted investments for these equity pools include those investments authorized in section IV of the State Treasurer's investment policy. Cash collateral investments include: a) obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities including repurchase and tri-party repurchase agreements collateralized at no less than 102% by securities, 100% by cash, and 102% by mortgage-backed securities, and b) U.S. 2a-7 money market mutual funds which are regulated by the Securities and Exchange Commission and rated in the highest category by at least one NRSRO.

The State Treasurer records the cash collateral received as an asset and the same amount as obligations under securities loan agreements. As of June 30, 2014, the fair value of securities on loan was \$819.0 million. The associated fair value of the invested collateral was \$853.4 million, of which \$490.1 million was invested cash collateral. All securities loans can be terminated on demand by either the State Treasurer or the borrower. For the cash collateral investments, the weighted average maturity was one day. The State Treasurer does not have the ability to pledge or sell the non-cash collateral unless there is a borrower default. The State Treasurer is indemnified against gross negligence, bad faith, or willful misconduct and borrower default by the lending agent. There were no borrower defaults during the current fiscal year. At June 30, 2014, the State Treasurer had \$490.1 million outstanding as payable for securities lending, and the following securities on loan were uninsured and held by the bank trust department not in the Treasurer's name:

Corporate notes	\$ 2,775,351
Equities	99,111,998
U.S. Treasury securities	<u>236,451,992</u>
Total Fair Value	<u><u>\$ 338,339,341</u></u>

H. DERIVATIVES

A derivative instrument is a financial instrument or other contract with all three of the following characteristics:

- i Settlement factors: It has one or more reference rates and one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and in some cases, whether or not a settlement is required.
- i Leverage: It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- i Net Settlement: Its terms require or permit net settlement, it can readily be settled net by means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

The ASRS is the primary State agency that has investment derivatives. The ASRS's derivatives are considered "Investment Derivative Instruments" as defined in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. All funds are considered fiduciary funds.

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The ASRS's derivative instruments, which consist of futures contracts, forward contracts, options, swaps, rights, and warrants, are measured at fair value and reported on the Statement of Fiduciary Net Position. Changes in fair values of derivative instruments are reported as net increase (decrease) in fair value of investments on the Statement of Changes in Fiduciary Net Position.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2014, classified by type, and the changes in fair value of derivative instruments for the year then ended as reported in the June 30, 2014 financial statements are as follows (expressed in thousands):

Investment Derivatives by Type					
Investment Derivatives	Changes in Fair Value (1)		Fair Value at June 30, 2014		
	Classification	Amount (2)	Classification	Amount (3)	Notional (4)
Commodity futures long	Net increase (decrease) in fair value of investments	\$ 83,877	Not applicable	\$ -	\$ 262,560
Commodity futures short	Net increase (decrease) in fair value of investments	(1,924)	Not applicable	-	(50)
Credit default swaps bought	Net increase (decrease) in fair value of investments	(993)	Not applicable	-	-
Credit default swaps written	Net increase (decrease) in fair value of investments	70	Not applicable	-	-
Fixed income futures long	Net increase (decrease) in fair value of investments	602	Not applicable	-	-
Fixed income futures short	Net increase (decrease) in fair value of investments	(926)	Not applicable	-	(11,300)
Fixed income options written	Net increase (decrease) in fair value of investments	629	Not applicable	-	-
Foreign currency options bought	Net increase (decrease) in fair value of investments	25	Fixed income securities	-	650
Foreign currency options written	Net increase (decrease) in fair value of investments	241	Fixed income securities	(29)	(10,678)
Foreign currency forwards	Net increase (decrease) in fair value of investments	(3,176)	Forward contracts receivable	857	239,400
Futures options written	Net increase (decrease) in fair value of investments	72	Not applicable	-	-
Index futures long	Net increase (decrease) in fair value of investments	6,314	Not applicable	-	11
Pay fixed interest rate swaps	Net increase (decrease) in fair value of investments	(419)	Not applicable	-	-
Receive fixed interest rate swaps	Net increase (decrease) in fair value of investments	(406)	Fixed income securities	(62)	9,645
Rights	Net increase (decrease) in fair value of investments	556	Equity securities	-	-
Warrants	Net increase (decrease) in fair value of investments	2,061	Equity securities	-	-
Total		<u>\$ 86,603</u>		<u>\$ 766</u>	<u>\$ 490,238</u>

(1) Excludes futures margin payments.

(2) Negative values refer to losses.

(3) Negative values refer to liabilities.

(4) Notional may be a dollar amount or size of underlying futures and options; negative values refer to short positions.

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The fair value of derivative instruments reported by the ASRS is based on quoted market prices off national exchanges. The fair value of foreign currency forward contracts is based on mathematical models and is valued using a pricing service, which uses published Reuter's foreign currency rates as the primary source for the calculation.

The credit quality ratings of counterparties as described by NRSROs and the counterparties' related risk concentration, as of June 30, 2014, are as follows (expressed in thousands):

Counterparty Risk and Ratings						
Counterparty Name	Total		Risk Concentration	Ratings		
	Net Exposure			S&P	Fitch	Moody's
Barclay's Bank	\$ 188	8.08%		A	A	A2
BNP Paribas, S.A.	18	0.76%		A+	A+	A1
Citibank N.A.	58	2.47%		A	A	A2
Credit Suisse	351	15.09%		A	A	A1
Deutsche Bank London	71	3.03%		A	A+	A3
Goldman Sachs	4	0.19%		A-	A	Baa1
HSBC Bank USA	51	2.18%		AA-	AA-	A1
JP Morgan Chase Bank N.A.	927	39.84%		A+	A+	Aa3
Morgan Stanley and Co. Inc.	27	1.17%		A	A	A3
Societe Generale	27	1.16%		A	A+	A2
Standard Chartered Bank	279	11.99%		AA-	AA-	A1
USB AG	327	14.04%		A	A	A2
Total	<u>\$ 2,328</u>	<u>100.00%</u>				

The maximum amount of loss due to credit risk that the ASRS would incur if the counterparties to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security or netting arrangement, is the total unrealized gain of derivatives at the end of the reporting period.

The ASRS has no general investment policy requiring collateral or other security to support derivative instruments. Each investment manager hired has discretion with respect to derivative investments and risk control. Each investment manager is governed by its Investment Manager Agreement.

The ASRS has no general investment policy with respect to netting arrangements. The ASRS's investment managers have master netting arrangements to allow net settlement with the same counterparty in the event the counterparty defaults on its obligations.

The aggregate fair value of investment derivative instruments in asset positions at June 30, 2014 was \$2.3 million. This represents the maximum amount of loss in case of default of all counterparties of over-the-counter positions as of June 30, 2014. There was no collateral received or netting arrangements in place at June 30, 2014 with counterparties that would reduce this exposure.

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The ASRS has exposure to interest rate risk due to the investment in an interest rate swap agreement. The required risk disclosures are included in the Interest Rate Risk schedule in Note 2.C. The fair value balance and notional amount of the interest rate swap outstanding as of June 30, 2014, for the year then ended, as reported in the June 30, 2014 financial statements are as follows (expressed in thousands):

Derivative Instruments Subject to Interest Rate Risk Investment Maturities						
Investment Type	Fair Value	Investment Maturities (in years)				
		Less Than 1	1-5	6-10	10+	
Receive fixed interest rate swaps	\$ (62)	\$ -	\$ (41)	\$ (21)	\$ -	
Total	\$ (62)	\$ -	\$ (41)	\$ (21)	\$ -	

Derivative Instruments Highly Sensitive to Interest Rate Changes					
Asset ID	Asset Description	Interest Rate	Fair Value	Notional	
PAY FIXED INTEREST RATE SWAPS					
ADI07VSP2	US 10YR NOTE (CBT) SEP 14	0.00%	\$ -	\$ (11,300)	
Total Pay Fixed Interest Rate Swaps			\$ -	\$ (11,300)	
RECEIVE FIXED INTEREST RATE SWAPS					
99S0EIJN8/	SWU002S11 IRS ZAR R F 6.50000 /	6.50%	\$ (51)	\$ 931	
99S0EIJO6	SWU002S11 IRS ZAR P V 03MJHBRG				
99S0EM2K3/	SWU023WC8 IRS BRL R F 8.65000 /	8.65%	(46)	817	
99S0EM2L1	SWU023WC8 IRS BRL P V 00MCETIP				
99S0FZ5T1/	SWU004PQ5 IRS BRL R F 10.91000 /	10.91%	(4)	4,356	
99S0FZ5U8	SWU004PQ5 IRS BRL P V 00MBRCDI				
99S0HFQQ6/	SWU005W76 IRS BRL R F 11.32000 /	11.32%	6	544	
99S0HFQR4	SWU005W76 IRS BRL P V 00MCETIP				
99S0HQRT5/	SWU006FE8 IRS THB R F 3.34000 /	3.34%	3	123	
99S0HQRU2	SWU006FE8 IRS THB P V 06MLIBOR				
99S0IA423/	SWU006VU4 IRS THB R F 3.41000 /	3.41%	3	259	
99S0IA431	SWU006VU4 IRS THB P V 06MTHFX				
99S0IAEK2/	SWU006X81 IRS THB R F 3.42000 /	3.42%	10	759	
99S0IAELO	SWU006X81 IRS THB P V 06MTHFX				
99S0IAWE6/	SWU006XQ1 IRS THB R F 3.41500 /	3.42%	5	381	
99S0IAWF3	SWU006XQ1 IRS THB P V 06MTHFX				
99S0IAWN6/	SWU006XR9 IRS THB R F 3.41000 /	3.41%	5	380	
99S0IAWO4	SWU006XR9 IRS THB P V 06MTHFX				
99S0IXAH3/	SWU007VO6 IRS COP R F 6.20000 /	6.20%	4	558	
99S0IXAII	SWU007VO6 IRS COP P V 00MCOOVI				
99S0IXAT7/	SWU007VN8 IRS COP R F 6.20000 /	6.20%	3	537	
99S0IXAU4	SWU007VN8 IRS COP P V 00MCOOVI				
Total Receive Fixed Interest Rate Swaps			\$ (62)	\$ 9,645	

The ASRS is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 2.F.

Refer to Note 7.A.4.c. for information on debt derivatives utilized by the ASU.

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NOTES TO THE FINANCIAL STATEMENTS
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I. STATE TREASURER'S SEPARATELY ISSUED FINANCIAL STATEMENTS

The State Treasurer issues separately published Annual Audited Financial Statements. These financial statements provide additional information relating to the State Treasurer's total investing activities, including the investment trust funds. A copy of the State Treasurer's Office Annual Audited Financial Statements can be obtained from their office at: Office of the Arizona State Treasurer, 1700 W. Washington Street, Phoenix, AZ 85007, (602) 542-7800, or their website at www.aztreasurer.gov.

NOTE 3. RECEIVABLES/DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES/UNEARNED REVENUE

A. TAXES RECEIVABLE

The following table summarizes taxes receivable at June 30, 2014 (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Industrial Commission Special Fund	Non-major Governmental Funds	Non-major Enterprise Funds	Government-wide Total
Sales	\$ 524,895	\$ -	\$ -	\$ 52,335	\$ -	\$ 577,230
Income – individual and corporate	116,318	-	-	-	-	116,318
Motor vehicle and fuel	-	62,117	-	-	-	62,117
Luxury	6,777	-	-	18,045	-	24,822
Unemployment	-	-	-	-	91,906	91,906
Other	-	-	4,182	3,199	-	7,381
Gross taxes receivable	647,990	62,117	4,182	73,579	91,906	879,774
Allowance for uncollectible taxes	(359,798)	-	-	-	-	(359,798)
Net Taxes Receivable	\$ 288,192	\$ 62,117	\$ 4,182	\$ 73,579	\$ 91,906	\$ 519,976

B. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At June 30, 2014, the components of deferred outflows of resources were as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Primary Government
Deferred Outflows of Resources			
Interest rate swap	\$ -	\$ 14,135	\$ 14,135
Loss on debt refundings	26,361	37,644	64,005
Total Deferred Outflows of Resources	\$ 26,361	\$ 51,779	\$ 78,140

At June 30, 2014, the components of deferred inflows of resources were as follows (expressed in thousands):

	General Fund	Land Endowments Fund	Other Governmental Funds	Total Governmental Funds
Governmental funds:				
Deferred Inflows of Resources:				
Unavailable Revenues:				
Delinquent sales and income tax	\$ 29,780	\$ -	\$ -	\$ 29,780
Tobacco settlement	50,000	-	-	50,000
Child support administrative reimbursements	4,347	-	-	4,347
Federal grants	182,209	-	-	182,209
Drug Rebates	93,826	-	-	93,826
Land sales receivable	-	487,552	-	487,552
Land leases receivable	-	3,412	-	3,412
Other	3,923	-	796	4,719
Total Deferred Inflows of Resources	\$ 364,085	\$ 490,964	\$ 796	\$ 855,845

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C. UNEARNED REVENUE

At June 30, 2014, the components of unearned revenue were as follows (expressed in thousands):

	<u>Current</u>	<u>Noncurrent</u>	<u>Total Unearned Revenue</u>
Unearned Revenue for Governmental Funds:			
General Fund:			
Advance insurance premium taxes	\$ 45,407	\$ -	\$ 45,407
Advance land lease payments	291	3,679	3,970
Advance county acute and long term care payments	21,256	-	21,256
Vaccine and commodity food supplement	5,224	-	5,224
Land Endowments Fund:			
Advance land lease payments	22,214	89,382	111,596
Non-Major Funds:			
Advance payments for Hawaii/Arizona PMMIS Alliance	381	-	381
Total Unearned Revenue for Governmental Funds	<u>\$ 94,773</u>	<u>\$ 93,061</u>	<u>\$ 187,834</u>
Unearned Revenue for Proprietary Funds:	<u>Current</u>		
Universities:			
Unexpended cash advances received	\$ 57,815		
Auxiliary sales and services	6,960		
IBM lease related to acquisition of research park	470		
Student tuition and fees	95,837		
Deposits	1,103		
Other	9,446		
Industrial Commission Special Fund:			
Other	133		
Non-Major Funds:			
Magazine subscriptions	2,040		
Other	112		
Total Unearned Revenue for Proprietary Funds	<u>\$ 173,916</u>		

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NOTE 4. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2014 were as follows (expressed in thousands):

	Primary Government				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 2,967,822	\$ 81,412	\$ (3,300)	\$ 176	\$ 3,046,110
Construction in progress	3,369,060	498,155	(907,031)	(43,801)	2,916,383
Development in progress	27,155	62,057	(30,644)	(1)	58,567
Infrastructure	12,951,192	827,735	(598)	-	13,778,329
Total Non-depreciable Capital Assets	19,315,229	1,469,359	(941,573)	(43,626)	19,799,389
Depreciable capital assets:					
Buildings	2,161,715	116,722	(263)	37,647	2,315,821
Improvements other than buildings	159,899	3,446	-	9,342	172,687
Equipment	811,035	63,804	(58,257)	9,896	826,478
Software and other intangibles	219,616	30,998	(86)	879	251,407
Infrastructure	21,896	302	-	678	22,876
Total Depreciable Capital Assets	3,374,161	215,272	(58,606)	58,442	3,589,269
Less accumulated depreciation for:					
Buildings	(778,628)	(56,157)	224	-	(834,561)
Improvements other than buildings	(93,642)	(4,647)	-	13	(98,276)
Equipment	(616,132)	(58,158)	56,661	308	(617,321)
Software and other intangibles	(195,169)	(6,685)	86	-	(201,768)
Infrastructure	(12,033)	(591)	-	1	(12,623)
Total Accumulated Depreciation	(1,695,604)	(126,238)	56,971	322	(1,764,549)
Total Depreciable Capital Assets, Net	1,678,557	89,034	(1,635)	58,764	1,824,720
Total Governmental Activities Capital Assets, Net	<u>\$ 20,993,786</u>	<u>\$ 1,558,393</u>	<u>\$ (943,208)</u>	<u>\$ 15,138</u>	<u>\$ 21,624,109</u>
	Beginning Balance (as restated)	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Business-type Activities:					
Non-depreciable capital assets:					
Land	\$ 210,037	\$ 19,600	\$ -	\$ -	\$ 229,637
Construction in progress	288,755	205,220	(53,649)	(141,166)	299,160
Development in progress	-	-	-	-	-
Collections	19,738	397	(21)	-	20,114
Total Non-depreciable Capital Assets	518,530	225,217	(53,670)	(141,166)	548,911
Depreciable capital assets:					
Buildings	5,027,319	170,359	(1,902)	126,098	5,321,874
Improvements other than buildings	4,853	874	-	-	5,727
Equipment	1,505,988	86,040	(38,187)	-	1,553,841
Software and other intangibles	120,736	-	-	5,221	125,957
Infrastructure	460,711	7,458	(3)	9,849	478,015
Total Depreciable Capital Assets	7,119,607	264,731	(40,092)	141,168	7,485,414
Less accumulated depreciation for:					
Buildings	(1,950,014)	(152,781)	966	3	(2,101,826)
Improvements other than buildings	(3,450)	(192)	-	-	(3,642)
Equipment	(1,111,266)	(86,299)	35,045	-	(1,162,520)
Software and other intangibles	(61,230)	(11,168)	-	-	(72,398)
Infrastructure	(184,785)	(15,437)	1	-	(200,221)
Total Accumulated Depreciation	(3,310,745)	(265,877)	36,012	3	(3,540,607)
Total Depreciable Capital Assets, Net	3,808,862	(1,146)	(4,080)	141,171	3,944,807
Total Business-type Activities Capital Assets, Net	<u>\$ 4,327,392</u>	<u>\$ 224,071</u>	<u>\$ (57,750)</u>	<u>\$ 5</u>	<u>\$ 4,493,718</u>

* For beginning balance restatement detail, see Note 9.B.

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Depreciation expense was charged to governmental functions as follows (expressed in thousands):

General government	\$ 20,901
Health and welfare	19,382
Inspection and regulation	875
Education	2,257
Protection and safety	56,101
Transportation	18,344
Natural resources	8,378
Total Governmental Activities	<u>\$ 126,238</u>

Depreciation expense was charged to business-type activities as follows (expressed in thousands):

Industrial Commission Special Fund	\$ 1,338
Universities	262,307
Other	2,232
Total Business-type Activities	<u>\$ 265,877</u>

NOTE 5. PENSION BENEFITS

The State participates in the ASRS, the PSPRS, the EORP, and the CORP's agent plan. Benefits are established by State statutes and provide retirement, death, and survivor benefits to State employees, public school employees and employees of counties, municipalities, and other State political subdivisions. The State does not participate in the AOC and, therefore, is not further described in these notes.

A. PARTICIPATING EMPLOYERS

The number of participating government employer groups as of June 30, 2014 for each pension plan is shown below:

<u>ASRS</u>	<u>PSPRS</u>	<u>EORP</u>	<u>CORP</u>
585	237	38	26

B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS

For the ASRS, contributions are recognized as revenues when due, pursuant to statutory and contractual requirements. Pension benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payments is made.

For the PSPRS, the EORP, and the CORP, member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Pension benefits are recognized when due and payable in accordance with the terms of the plan. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid.

C. FUNDING POLICY

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the A.R.S. These contribution requirements may be amended by the Arizona State Legislature.

Cost-sharing plans

For the year ended June 30, 2014, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 11.30% and 10.70% of the members' annual covered payroll, respectively. The State's contributions to the ASRS for the years ended June 30, 2014, 2013, and 2012 were \$202.0 million, \$185.5 million, and \$180.8 million, respectively, for the primary government which were equal to the required contributions for these years.

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As part of 2013 Fifty-first legislature, House Bill 2608 effectively closed EORP and created the Elected Officials' Defined Contribution Retirement System (EODCRS), with an effective date of January 1, 2014. Elected Officials who are elected, appointed, or hired on or after January 1, 2014, have one of three different paths that may be available to them: If a person has EORP time on account or is elected, appointed, or hired on or before December 31, 2013, they are required to be in EORP; If a person is elected, appointed, or hired on or after January 1, 2014, and does not have prior EORP time, but has ASRS time, that person has the option to either return to ASRS by electing to do so within 30 days or participate in the EODCRS; or, if a person is elected, appointed, or hired on or after January 1, 2014, does not have time on account with EORP, and does not timely opt out of EODCRS to return to ASRS, they're automatically enrolled in EODCRS.

Active EORP members were required by statute to contribute 13% of the members' annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 38.06% of the members' annual covered payroll, as determined by actuarial valuation until December 31, 2013. Beginning January 1, 2014 employer contributions are 23.50% with an additional \$5.0 million appropriated from the Arizona State Budget (Section 133 of fiscal year General Appropriations Act). The \$5.0 million from the State is considered a non-employer entity and is listed separately on the Statement of Changes in Fiduciary Net Position. The State's contributions to EORP for the years ended June 30, 2014, 2013, and 2012 were \$3.1 million, \$2.5 million, and \$2.2 million, respectively, which were equal to the required contributions for these years.

Agent plans

For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 21.79 – 107.07%. Active CORP members were required by statute to contribute 7.96% (Dispatchers) and 8.41% (Non-Dispatchers) of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 12.07 – 13.87%.

D. ANNUAL PENSION COST

The State's annual pension costs and required contributions made to each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2014, is as follows (expressed in thousands):

	Annual Pension Costs	Required Contributions
PSPRS	\$ 43,200	\$ 43,200
CORP	50,860	50,860

The State's annual pension costs, the percentage of annual pension cost contributed to the plan, and the net pension (refer to Note 6.A. for explanation) for the current and preceding year for each of the agent, multiple-employer defined benefit pension plans, is as follows (expressed in thousands):

	Fiscal Year Ended	Annual Pension Costs	Percentage of Annual Cost Contributed	Net Pension
PSPRS	6/30/2014	\$ 43,200	100%	\$ -
	6/30/2013	36,833	101%	3,175
	6/30/2012	31,253	102%	2,627
CORP	6/30/2014	50,860	100%	-
	6/30/2013	39,537	108%	15,874
	6/30/2012	32,058	109%	12,854

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E. FUNDED STATUS AND FUNDING PROGRESS

The State's funded status for each of the agent, multiple-employer defined benefit pension plans, as of the most recent actuarial valuation, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2014	\$ 450,284	\$ 1,240,343	\$ (790,059)	36.3%	\$ 85,973	(919.0)%
CORP	6/30/2014	852,041	1,520,026	(667,985)	56.1%	350,313	(190.7)%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

F. ACTUARIAL METHODS AND ASSUMPTIONS

The State's actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit pension plans for the most recent actuarial valuation as of 6/30/2014 and actuarial valuation as of 6/30/2012 that was used to determine the fiscal year 2014 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
Actuarial valuation date	6/30/2012	6/30/2012	6/30/2014	6/30/2014
Actuarial cost method	entry age normal	entry age normal	entry age normal	entry age normal
Actuarial assumptions:				
Investment rate of return	8.0%	8.0%	7.85%	7.85%
Projected salary increases	5.0 – 9.0%	5.0 – 8.25%	4.0 – 8.0%	4.0 – 7.25%
Payroll growth	5.0%	5.0%	4.0%	4.0%
Cost-of-living adjustments	none	none	n/a	(1)
Amortization method	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization period	24 years for unfunded, 20 years for overfunded	24 years for unfunded, 20 years for overfunded	22 years for unfunded, 20 years for overfunded	22 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market	7-year smoothed market
	80%/120% market	80%/120% market	80%/120% market	80%/120% market
Permanent Benefit Increases (PBI)	n/a	n/a	(2)	n/a

- (1) Members Retired on or before July 1, 2011: 2.25% of benefit. Members Retired on or after August 1, 2011: 0.5% of benefit.
- (2) Members Retired on or before July 1, 2011: 2.0% compounded on average. Members Retired on or after August 1, 2011: 0.5% compounded on average. Since all current retirees receive the same dollar increase amount, approximation techniques were used to develop the assumed PBI for each member.

G. UNIVERSITIES' RETIREMENT PLANS

Faculty, academic professionals, service professionals, and administrative staff at the three universities (the ASU, the NAU, and the U of A) may select one of three retirement plans: the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Fidelity Investments Tax-Exempt Services Company (Fidelity), or the ASRS. The ASRS is a defined benefit plan and the other two plans are defined contribution plans. The two defined contribution plans are administered by independent insurance and annuity companies approved by the ABOR. In addition, the U of A employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. In a defined contribution plan, benefits depend solely on the contributed amounts and the returns earned on investments of those contributions. Contributions made by employees vest immediately and the Universities' contributions vest no later than after five years of full-time employment. Employees and Universities' contributions and associated returns earned on investments may be withdrawn starting

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upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 2014, plan members and the three Universities were each required by statute to contribute an amount equal to 7.00% of an employee's compensation, except for a 7.00% member contribution and a 7.59% University contribution for the ASRS defined contribution plan.

Contributions to these plans for the year ended June 30, 2014, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	\$ 31,590	\$ 31,590	\$ 63,180
Fidelity	22,550	22,550	45,100
ASRS	13	12	25

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS

A. PLAN DESCRIPTION

Cost-sharing plans

In addition to the pension benefits described, the ASRS provides health insurance premium supplemental benefits and disability benefits to retired members, disabled members, and eligible dependents through the Health Benefit Supplement Fund (HBS) and the Long Term Disability Fund (LTD), which are cost-sharing, multiple-employer defined benefit post-employment plans. Title 38, Chapter 5 of the A.R.S. assigns the authority to establish and amend the benefit provisions of the HBS plan and the LTD plan to the Arizona State Legislature. The ASRS issues a publicly available financial report that includes the financial information and disclosure requirements for the HBS plan and the LTD plan. Information on how to obtain this report is included in Note 1.A.

In addition to the pension benefits described, the EORP provides health insurance premium subsidy benefits to retired members, which is a cost-sharing, multiple employer defined benefit post-employment plan. Title 38, Chapter 5 of the A.R.S. assigns the authority to establish and amend the health insurance subsidy benefit provisions to the Arizona State Legislature. As of July 1, 2013, the EORP administers a separate healthcare plan as defined under IRC § 401(h). In addition, the EORP is statutorily authorized, by A.R.S. § 38-817, to maintain a separate account for the health insurance subsidy assets and benefit payments. The health insurance subsidy assets are accounted for by employer and are available to pay only the health insurance benefit. Information on how to obtain the EORP's publicly available financial report is included in Note 1.A. However, the EORP OPEB benefit is relatively insignificant to the State's financial statements and, therefore, is not further described in these notes.

Agent plans

In addition to pension benefits described, the PSPRS and the CORP each provide a health insurance premium subsidy benefit to retired members and survivors, which are agent, multiple-employer defined benefit post-employment plans. Title 38, Chapter 5 of the A.R.S. assigns the authority to establish and amend the health insurance premium subsidy benefit provisions to the Arizona State Legislature. As of July 1, 2013, the PSPRS and the CORP each administers a separate healthcare plan as defined under IRC § 401(h). In addition, the PSPRS and the CORP are statutorily authorized, by A.R.S. § 38-857 and A.R.S. § 38-906, respectively, to maintain a separate account for the health insurance premium subsidy assets and benefit payments. The health insurance premium subsidy assets are accounted for by employer and are available to pay only the health insurance premium benefit. In prior fiscal years, the health insurance premium subsidy benefit was not administered as a trust or equivalent arrangement and in accordance with GASB Statement No. 43, was reported as an agency fund. As a result of this treatment, contributions in excess of the health insurance subsidy benefit payments were reported as an OPEB obligation and as excess pension contributions in the pension benefit plan. In fiscal year 2014, the plans transferred prior year health insurance premium subsidy contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund. The PSPRS and the CORP each issue publicly available financial reports that include the financial information and disclosure requirements for the health insurance subsidy benefits. Information on how to obtain these reports is included in Note 1.A.

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B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS

Cost-sharing plan

The ASRS recognition of contributions, benefits, and refund payments for the HBS plan and the LTD plan are the same as the pension benefit in Note 5.B.

Agent plans

The PSPRS and the CORP recognition of employer contributions and refunds for the health insurance subsidy benefit are the same as the pension benefit in Note 5.B. Health insurance subsidy benefits are recognized when due and payable in accordance with the terms of the plan.

C. FUNDING POLICY

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the A.R.S. These contribution requirements are established and may be amended by the Arizona State Legislature.

Cost-sharing plan

For the year ended June 30, 2014, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 0.24% of the members' annual covered payroll for LTD. In addition, the State also contributed 0.60% for the HBS. The State's contributions for LTD to the ASRS for the years ended June 30, 2014, 2013, and 2012 were \$4.5 million, \$4.3 million, and \$4.4 million, respectively, for the primary government which were equal to the required contributions for these years. The State's contributions for the HBS to the ASRS for the years ended June 30, 2014, 2013, and 2012 were \$11.3 million, \$11.8 million, and \$11.5 million, respectively, for the primary government which were equal to the required contributions for these years.

Agent plans

For the year ended June 30, 2014, the PSPRS participating State agencies were required to contribute at actuarially determined rates of 1.28 – 4.60% of covered payroll. The CORP participating State agencies were required to contribute at actuarially determined rates of 0.92 – 1.52% of covered payroll.

D. ANNUAL OPEB COST

The State's annual OPEB cost and OPEB contributions made to each of the agent, multiple-employer defined benefit post-employment plans for the year ended June 30, 2014, is as follows (expressed in thousands):

	Annual OPEB Costs	OPEB Contributions Made
PSPRS	\$ 2,070	\$ 2,070
CORP	4,838	4,838

The State's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (refer to Note 6.A. for explanation) for the current and preceding year for each of the agent, multiple-employer defined benefit post-employment plans, is as follows (expressed in thousands):

	Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS	6/30/2014	\$ 2,070	100.0%	\$ -
	6/30/2013	2,158	74.6%	3,175
	6/30/2012	2,225	77.6%	2,627
CORP	6/30/2014	4,838	100.0%	-
	6/30/2013	5,179	41.7%	15,874
	6/30/2012	5,213	42.7%	12,854

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E. FUNDED STATUS AND FUNDING PROGRESS

The State's funded status for each of the agent, multiple-employer defined benefit post-employment plans, as of the year ended June 30, 2014, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Funded AAL	Funded Ratio	Annual Covered Payroll	Funded AAL as a Percentage of Covered Payroll
PSPRS	6/30/2014	\$ 35,607	\$ 29,668	\$ 5,939	120.0%	\$ 85,973	6.9%
CORP	6/30/2014	72,713	62,623	10,090	116.1%	350,313	2.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

F. ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The State's actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit post-employment plans for the most recent actuarial valuation as of 6/30/2014 and actuarial valuation as of 6/30/2012 that was used to determine the fiscal year 2014 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
Actuarial valuation date	6/30/2012	6/30/2012	6/30/2014	6/30/2014
Actuarial cost method	entry age normal	entry age normal	entry age normal	entry age normal
Actuarial assumptions:				
Investment rate of return	8.0%	8.0%	7.85%	7.85%
Projected salary increases	5.0 – 9.0%	5.0 – 8.25%	4.0 – 8.0%	4.0 – 7.25%
Payroll growth	5.0%	5.0%	4.0%	4.0%
Cost-of-living adjustments	none	none	n/a	(1)
Amortization method	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization period	24 years for unfunded, 20 years for overfunded	24 years for unfunded, 20 years for overfunded	22 years for unfunded, 20 years for overfunded	22 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market	7-year smoothed market
	80%/120% market	80%/120% market	80%/120% market	80%/120% market
Permanent Benefit Increases	n/a	n/a	(2)	n/a

- (1) Members Retired on or before July 1, 2011: 2.25% of benefit Members Retired on or after August 1, 2011: 0.5% of benefit.
- (2) Members Retired on or before July 1, 2011: 2.0% compounded on average Members Retired on or after August 1, 2011: 0.5% compounded on average. Since all current retirees receive the same dollar increase amount, approximation techniques were used to develop the assumed PBI for each member.

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NOTE 7. LONG-TERM OBLIGATIONS

A. REVENUE BONDS

Governmental Activities

1. Department of Administration

The State has pledged portions of its revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2010A. These bonds provide additional working capital to the State to pay appropriated expenditures of the State's General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State's General Fund from the State Lottery pursuant to Lottery law, and from and after July 1, 2012, all Lottery revenues deposited to the Lottery Fund net of operating expenses of the Lottery. At June 30, 2014, pledged revenues totaled \$174.4 million, of which 21.5% (\$37.5 million) was required to cover debt service. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of July 1, 2029 is \$562.5 million.

2. Arizona Department of Transportation

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.7 billion. During the year, no new Highway Revenue Bonds were issued.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes. On September 21, 2006, House Bill 2206 became effective and eliminated the restriction that limited the principal amount of the Highway Revenue Bonds that could be outstanding at any time to \$1.3 billion. Also during fiscal year 2007, the ADOT received legislative authority to begin issuing Highway Revenue Bonds with maturities of up to 30 years in length, replacing the 20 year maturity requirement that had been in place since 1980.

The ADOT has pledged future motor vehicle and related fuel fees and taxes to repay \$1.7 billion in outstanding Highway Revenue Bonds issued since 2001. Proceeds from the bonds finance portions of the ADOT's Five Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$2.6 billion. Principal and interest paid for the current year and total pledged revenues were \$139.0 million and \$537.8 million, respectively. The annual principal and interest payments on the bonds required 25.8% of the pledged revenues.

The Maricopa County Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the ADOT. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$926.0 million.

The ADOT has pledged future transportation excise taxes to repay \$867.4 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, AZ. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$1.1 billion. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$243.8 million, respectively. The annual principal and interest payments on the bonds required 42.5% of the pledged revenues.

In prior fiscal years, the ADOT refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2014 totaled \$709.3 million.

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3. School Facilities Board

In prior fiscal years, the School Facilities Board (SFB) refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for these legally defeased bonds are not reflected in the accompanying financial statements.

The SFB has pledged portions of its gross revenues towards payment of debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, State school trust revenue bonds, and State school trust revenue refunding bonds outstanding at June 30, 2014. These bonds finance the correction of existing deficiencies in school facilities in the State of Arizona. These pledged revenues include Education Transaction Privilege Taxes approved by voters as part of Proposition 301 and expendable State School Trust Revenues. Expendable State School Trust Revenues include State Trust Lands' land lease revenue, interest earnings on land sales financed over time, and a formula distribution from the State's Permanent Fund prescribed by the State's Constitution. Pledged revenues do not include sales of State Trust Lands, sales of natural products derived from State Trust Lands, or royalties from minerals extracted from State Trust Lands. These revenues are held in perpetuity for the benefit of various beneficiaries of the State Land Trust and are not available to pay debt service. Expendable State School Revenues in excess of \$72.263 million are not available to pay debt service on the State school trust revenue bonds and State school trust revenue refunding bonds per the debt documents. At June 30, 2014, pledged revenues totaled \$659.2 million, of which 12.2% (\$80.5 million) was required to cover current year debt service. Future pledged revenues required to pay all future debt service on these bonds through final maturity of July 1, 2020 is \$504.6 million.

Business-Type Activities

4. Universities

a. University of Arizona

The U of A's bonded debt consists of various issues of system revenue bonds and Stimulus Plan for Economic and Educational Development (SPEED) revenue bonds that are generally callable with interest payable semi-annually. Bond proceeds are used to pay for acquiring or constructing capital facilities and infrastructure and for refunding obligations from previously issued bonds.

For all outstanding SPEED revenue bonds, up to 80% of the debt service payments are payable from the U of A's SPEED revenue bond account monies, which are derived from certain revenues of the Lottery. To the extent SPEED revenue bond account monies are not sufficient to make debt service payments, the SPEED revenue bonds are secured by a pledge of certain gross revenues, such as student tuition and fees, but that pledge is subordinate to the pledge of those gross revenues for the U of A's system revenue bonds.

In fiscal year 2013, the U of A refunded, in advance of maturity, a portion of the outstanding System Revenue Bonds Series 2005A. At June 30, 2014, the outstanding principal balance on the refunded bonds was \$26.5 million, which will be paid by investments held in an irrevocable trust with a fair value of \$27.7 million. Accordingly, the trust account assets and liability for the defeased bonds are not included in the accompanying financial statements.

The U of A's outstanding Series 2010 SPEED Revenue Bonds were issued as designated Build America Bonds under the provisions of the American Recovery and Reinvestment Act (ARRA). As such, the U of A is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the U of A must file certain required information with the Federal government between 90 and 45 days prior to the interest payment date. The amount paid to the U of A by the Federal government may be reduced or eliminated due to such issues as failure by the U of A to submit the required information, any amounts owed by the U of A to the Federal government, or changes in the law that would reduce or eliminate such payments. Due to the federal sequestration, the U of A will receive a 7.2% reduction (totaling \$116 thousand) in the federal interest subsidy for the August 1, 2014 debt service payment. There is no guidance from the Internal Revenue Service on sequestration reductions for February 1 and August 1, 2015 debt service payments.

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The U of A has pledged portions of its gross revenues towards the payment of debt related to all system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2014. The bonds generally provide financing for various capital projects of the U of A. These pledged revenues include student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues such as indirect cost recovery and certain investment income. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. For fiscal year 2014, pledged revenues totaled \$1.0 billion, of which 5.9% (\$60.8 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 4% of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2048 is \$1.4 billion.

b. Northern Arizona University

The NAU's bonded debt consists of various issues that are generally callable at a prescribed date with interest payable semi-annually. All issues are at a fixed rate. Bond proceeds primarily pay for acquiring, constructing, or renovating capital facilities. System revenue bonds are repaid from pledged gross revenues that primarily consist of student tuition and fees and certain auxiliary revenues.

On May 8, 2014, the NAU sold \$67.3 million of Systems Revenue and Refunding Bonds Series 2014 (2014 Bonds) for the purpose of the construction and equipping approximately 120,000 square feet of regulation indoor aquatic and tennis spaces for athletic and intramural activities, 90,000 square feet of regulation outdoor tennis courts and a recreation field, renovation of approximately 254,000 gross square feet of existing residential units containing five residential properties to current fire codes, and improvements to infrastructure, including installation of new water supply piping through rock, roads, and existing landscaping. The 2014 Bonds include serial bonds of \$43.0 million, with interest rates ranging from 3.00% to 5.00%. The 2014 Bonds also include two term bonds that are subject to annual sinking fund contributions. The first term bond is for \$14.9 million with an interest rate of 5.00% that matures June 1, 2040. The second term bond is for \$9.4 million with an interest rate of 5.00% that matures June 1, 2044. Refunded were \$6.9 million of the 2004 Systems Revenue Bonds for maturities from June 1, 2018 to June 1, 2031, and \$9.4 million from the Systems Revenue Bonds Series 2005 for maturities from June 1, 2016 through June 1, 2029 and June 1, 2036 through June 1, 2040. The refunding set aside \$17.4 million into escrow that purchased SLGS Certificates with maturities between June 1, 2014 and June 1, 2015. The present value of the refunded debt prior to May 8, 2014 was \$18.6 million and the net present value savings was \$938 thousand. The advance refunding decreases the NAU's debt service by \$377 thousand in year one. In addition, annual debt service decreases by an average of \$33 thousand in years two through twenty-seven.

In the current and prior years, the NAU defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2014, \$24.6 million of such bonds outstanding are considered defeased.

The Series 2009A and 2010 Bonds were issued as designated Build America Bonds under the provisions of the ARRA. As such, the NAU is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the NAU must file certain required information with the Federal government between 90 and 45 days prior to the interest payment date. The amount paid to the NAU by the Federal government may be reduced or eliminated due to such issues as failure by the NAU to submit the required information, any amounts owed by the NAU to the Federal government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2014, the Federal government reduced federal direct payment claims filed between December 1, 2013 and September 1, 2014 by 7.2% due to the federal budget sequestration resulting in a \$271 thousand reduction in direct payments to the NAU. For accounting purposes, any direct payments received from the U.S. Treasury Department are recorded as non-operating revenue.

For the 2010 and 2013 revenue bonds, up to 80% of the debt service payments are payable from the NAU's SPEED revenue bond account monies, which are derived from certain revenues of the Lottery. To the extent SPEED revenue bond account monies are not sufficient to make debt service payments, the SPEED revenue bonds are secured by a pledge of certain gross revenues, such as student tuition and fees, but that pledge is subordinate to the pledge of those gross revenues for the NAU's system revenue bonds.

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The NAU has pledged portions of its gross revenues towards the payment of debt related to system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2014. The bonds generally provide financing for various capital projects of the NAU. These pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. Pledged revenues have averaged \$214.1 million for the prior five years. For fiscal year 2014, pledged revenues totaled \$252.2 million, of which 10.1% (\$25.4 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 12% of pledged revenues. Future pledged revenues required to pay all remaining related debt service for the bonds through final maturity of June 1, 2044 are \$904.5 million.

c. Arizona State University

At June 30, 2014, the ASU had issued a combination of fixed and variable rate bonds. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain revenue bonds of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all defeased bonds outstanding at June 30, 2014 totaled \$16.5 million.

The ASU has pledged gross revenues as defined in the bond indentures towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2014. These related system revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations, and infrastructure improvements. The pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. For the year ended June 30, 2014, pledged revenues totaled \$1.2 billion, of which 7.3% (\$84.4 million, net of federal direct payments) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for senior and subordinate revenue bonds through final maturity of August 1, 2044 is \$1.6 billion. In addition to a senior pledge of revenues for the ASU system revenue bonds, the ASU has pledged the same revenues on a subordinated basis to secure the ASU SPEED revenue bonds and the Series 2006 Arizona State University Research Park, Inc. Development Refunding Bonds. Research Park bonds outstanding at June 30, 2014 were \$7.0 million with annual debt service payments of approximately \$1.2 million through July 1, 2021.

In June 2008, the Legislature approved the SPEED which provides the ASU with capital improvement funds for critical construction and deferred maintenance projects. SPEED projects are debt financed with revenue bonds, repaid primarily with Lottery revenues. Specifically, up to 80% of SPEED debt service is paid from Lottery revenues, with the balance being the responsibility of the ASU as evidenced by the subordinated pledge of the ASU revenues.

In April 2014, the ASU issued \$77.6 million in SPEED revenue bonds, Series 2014, with an average maturity of 13.9 years and an average interest rate of 3.72%. The bonds were issued to fund classroom and laboratory renovations, building and infrastructure enhancements and modifications, and a portion of the construction costs for the College Avenue Commons, a new Tempe campus mixed-use facility.

The Taxable Series 2010A System Revenue Bonds and the Taxable Series 2010A SPEED Revenue Bonds were issued as Build America Bonds under the provisions of the ARRA. As such, the ASU is eligible to receive Federal Direct Payments from the U.S. Treasury equal to 35% of the interest owed on each interest payment date. The amount paid to the ASU by the Federal government may be reduced or limited due to such issues as failure by the ASU to submit the required information, offsets to reflect any amounts owed by the ASU to the Federal government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2014, the Federal government reduced federal direct payment claims by 7.2% due to federal budget sequestration resulting in a \$300 thousand reduction in direct payments to the ASU. For accounting purposes, any direct payments received from the U.S. Treasury are recorded as nonoperating revenue.

The ASU has outstanding two series of variable rate demand system revenue refunding bonds, Series 2008A and Series 2008B, totaling \$94.3 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2014 was 0.04% for the Series 2008A Bonds and 0.07% for the Series 2008B Bonds. To provide credit and liquidity support for the bonds, on March 1, 2012, the ASU entered into an Irrevocable Transferable Direct-Pay Letter of Credit (LOC) with JPMorgan Chase Bank, N.A. (JPMorgan), under which the ASU has agreed to a commitment fee for the LOC of 0.38% per annum. Should the Series 2008A/B bond rating change, the commitment fee could increase according to the fee agreement. Assuming all of the \$47.14

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million Series 2008A and \$47.14 million Series 2008B bonds are not resold within 365 days, the ASU would be responsible to make quarterly installment principal payments, with the last payment on the fourth anniversary of JPMorgan acquiring the bonds, plus interest to be calculated as established in the LOC.

Securities and cash restricted for bonds debt service held by the trustee at June 30, 2014 totaled \$63.6 million.

The ASU presently plans to issue up to \$170.4 million in system revenue bonds prior to calendar year end 2015.

Effective January 1, 2007, the ASU entered into a \$103.0 million notional amount swap agreement (hedging derivative instrument) expiring on July 1, 2034, in conjunction with the 2008 variable rate demand system revenue refunding bonds (2008 Bonds). The \$103.0 million notional amount is not exchanged; it is only the basis on which the interest payments are calculated and it decreases as principal payments are made on the 2008 Bonds. The intention of the swap is to effectively convert the variable rate interest on the 2008 Bonds to a synthetic fixed rate. Under the terms of the swap agreement, the ASU pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The SIFMA rate at June 30, 2014 was 0.06%. At June 30, 2014, the synthetic fixed interest rate on the bonds was:

Interest Rate Swap	Terms	Rates (%)
Fixed payment to counterparty	Fixed	3.91
Variable payment from counterparty	SIFMA	(0.06)
Net interest rate swap payments		3.85
Variable-rate bond coupon payments	Spread to SIFMA	0.06
Synthetic fixed interest rate on bonds		3.91

The ASU continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the ASU effectively pays a fixed rate on the debt. If the counterparty defaults or if the swap is terminated, the ASU will revert to paying a variable rate. A termination of the swap agreement may also result in the ASU making or receiving a termination payment.

The ASU is exposed to interest rate risk based on the SIFMA indexed variable payment received from the counterparty versus the variable rate paid to bondholders. The swap exposes the ASU to basis risk should the weekly SIFMA rate paid by the counterparty fall below the weekly interest rate due on the bonds.

As of June 30, 2014, the ASU was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the ASU would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A by Fitch, A by S&P and A2 by Moody's as of June 30, 2014. Based on current ratings, the counterparty was not required to provide collateral. In the event a rating downgrade occurs, the counterparty may be required to provide collateral if the ASU's overall exposure exceeds predetermined levels. Collateral may be held by the ASU or a third party custodian.

As of June 30, 2014, the swap had a fair value of \$(14.1) million, which represents the cost to the ASU to terminate the swap. The June 30, 2013 fair value was \$(14.1) million. The fair value was developed by an independent third party, with no vested interest in the transaction, using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. In accordance with GASB 53, as amended by GASB 63, the fair value of the ASU's hedging derivative instrument is reported on the statement of net position as a deferred outflow of resources (interest rate swap) and a liability (derivative instrument - interest rate swap).

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Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2014 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2014
Governmental Activities:				
Department of Transportation	2001-2013	2015-2038	.60-5.25%	\$ 2,542,175
School Facilities Board	2002-2013	2015-2020	.14-5.00%	472,835
Department of Administration	2010	2015-2029	3.00-5.00%	391,185
Business-type Activities:				
University Revenue Bonds	1992-2014	2015-2049	.06-6.64%	2,302,035

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2014 are as follows (expressed in thousands):

Annual Debt Service							
Governmental Activities				Business-type Activities			
Fiscal Year	Total Principal	Total Interest	Total	Total Principal	Total Interest	Net Payments (Receipts) on Swap Agreement	Total
2015	\$ 217,970	\$ 149,585	\$ 367,555	\$ 75,010	\$ 108,916	\$ 3,507	\$ 187,433
2016	240,260	140,677	380,937	76,730	105,791	3,401	185,922
2017	242,020	132,565	374,585	90,440	102,352	3,290	196,082
2018	271,085	123,493	394,578	83,945	99,137	3,173	186,255
2019	236,790	114,411	351,201	85,180	95,610	3,050	183,840
2020-2024	1,067,185	432,378	1,499,563	454,945	416,911	13,181	885,037
2025-2029	707,660	200,615	908,275	501,360	298,184	9,048	808,592
2030-2034	323,075	66,608	389,683	412,420	185,088	3,773	601,281
2035-2039	100,150	11,649	111,799	314,605	95,400	-	410,005
2040-2044	-	-	-	167,275	27,782	-	195,057
2045-2049	-	-	-	40,125	3,586	-	43,711
Total	<u>\$ 3,406,195</u>	<u>\$ 1,371,981</u>	<u>\$ 4,778,176</u>	<u>\$ 2,302,035</u>	<u>\$ 1,538,757</u>	<u>\$ 42,423</u>	<u>\$ 3,883,215</u>

B. GRANT ANTICIPATION NOTES

Grant Anticipation Notes (GANs) are issued by the ADOT and secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of GANs issued in prior years and outstanding at the start of the fiscal year was \$296.2 million.

In prior fiscal years, the ADOT refinanced various GAN issues through advance-refunding arrangements. Under the terms of the refunding GAN issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded GAN issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased GANs are not reflected in the accompanying financial statements. Refunded GANs for the ADOT at June 30, 2014 totaled \$25.7 million.

The ADOT has pledged federal revenues to repay \$247.7 million in outstanding GANs issued since 2004. Proceeds from the GANs pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona. The GANs are payable solely from federal revenues and are payable through 2026. The total principal and interest remaining to be paid on the GANs is \$313.4 million. Principal and interest paid for the current year and total pledged revenues were \$64.9 million and \$688.1 million, respectively. The annual principal and interest payments on the GANs required 9.4% of the pledged revenues.

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Grant Anticipation Notes currently outstanding are as follows (expressed in thousands):

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2014
Governmental Activities: Department of Transportation	2004-2012	2015-2026	3.00-5.25%	\$ 247,710

Future debt service principal and interest payments on Grant Anticipation Notes issues for fiscal years ended June 30 are summarized below (expressed in thousands):

Annual Debt Service			
Governmental Activities			
Fiscal Year	Total Principal	Total Interest	Total Debt Service
2015	\$ 53,040	\$ 11,855	\$ 64,895
2016	47,350	9,552	56,902
2017	11,770	7,393	19,163
2018	12,325	6,838	19,163
2019	12,925	6,240	19,165
2020-2024	74,785	21,035	95,820
2025-2026	35,515	2,816	38,331
Total	\$ 247,710	\$ 65,729	\$ 313,439

C. CERTIFICATES OF PARTICIPATION

Governmental Activities

1. Department of Administration

The State has issued COPs to finance construction or improvements of various capital assets. Additionally, the State issued COPs Series 2010A and 2010B to finance the acquisition of certain property from the State by the trustee, with which the proceeds of were deposited to the State's General Fund to pay appropriated expenditures of the State. The COPs Series 2010A and 2010B sale-leaseback transactions are nominal sales, with the State retaining all rights of ownership and control of the properties. Accordingly, they are accounted for under the financing method since the State has such an extensive continuing involvement in the properties for the entire duration of the agreement. The State's obligation to make lease payments and any other obligations of the State under the lease are subject to, and dependent upon, annual appropriations made by the Legislature and annual allocations of such appropriations being made by the Department of Administration for such purpose. The Department of Administration agrees to use its best efforts to budget, obtain, allocate, and maintain sufficient appropriated monies to make lease payments. In the event any such appropriation and allocation is not made, the leases will terminate and there can be no assurance that the proceeds for the re-leasing or sale of the projects will be sufficient to pay principal and interest with respect to the then outstanding COPs. The scheduled payments of principal and interest with respect to the COPs are guaranteed under certificate insurance policies. The State's obligation to make lease payments does not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the State is pledged to make payments of principal or interest due with respect to the COPs. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

In prior fiscal years, the State refinanced various COPs through advance-refunding arrangements. Under the terms of the refundings, sufficient assets to pay all principal, redemption premiums, if any, and interest on the refunded COPs have been placed in irrevocable trust accounts at commercial banks and invested in U.S. securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for these legally defeased COPs are not reflected in the accompanying financial statements.

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2. School Facilities Board

On December 19, 2013, the SFB issued Refunding Certificates of Participation Series 2013A-1 and 2013A-2 (2013A-1 COPs and 2013A-2 COPs) for \$29.9 million and \$49.6 million, respectively. The 2013A-1 COPs include \$29.9 million of serial certificates with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2015 to 2020. The 2013A-1 COPs are not subject to optional redemption prior to maturity, however, these COPs are subject to defeasance pursuant to the debt documents. The SFB realized net proceeds from the 2013A-1 COPs of \$32.5 million, after receipt of \$2.8 million issue premium and payment of \$173 thousand for underwriters' discount and issuance costs. The net proceeds of the 2013A-1 COPs were used to advance-refund the Series 2003B COPs with an outstanding principal balance of \$15.2 million, and to advance-refund \$16.3 million of the Series 2004A COPs with an outstanding principal balance of \$19.9 million. The advance-refundings resulted in combined debt service savings of \$1.3 million and a combined net present value economic gain of \$1.6 million (difference between the present values of the old debt and new debt service payments). The advance-refundings also resulted in an immaterial difference between the reacquisition price and the net carrying amount of the old debt of \$162 thousand. This difference is reported as a reduction of interest expense in the accompanying financial statements. The refunded Series 2003B COPs were redeemed on January 21, 2014. The refunded Series 2004A COPs will be redeemed on September 1, 2014 by investments in United States government obligations held in an irrevocable trust. The 2013A-2 COPs include \$49.6 million of serial certificates with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2015 to 2019. The 2013A-2 COPs are not subject to optional redemption prior to maturity; however, these COPs are subject to defeasance pursuant to the debt documents. The SFB realized net proceeds from the 2013A-2 COPs of \$53.3 million, after receipt of \$4.0 million issue premium and payment of \$273 thousand for underwriters' discount and issuance costs. The net proceeds of the 2013A-2 COPs were used to advance-refund \$29.5 million of the Series 2004B COPs with an outstanding principal balance of \$43.2 million, and to advance-refund \$21.3 million of the Series 2004C COPs with an outstanding principal balance of \$24.9 million. The advance-refunding resulted in a debt service savings of \$3.9 million and a net present value economic gain of \$3.6 million (difference between the present values of the old debt and new debt service payments). The advance-refunding resulted in an immaterial difference between the reacquisition price and the net carrying amount of the old debt of \$40 thousand. This difference was charged to interest expense in the accompanying financial statements. The refunded Series 2004B and 2004C COPs will be redeemed on September 1, 2014 by investments in United States government obligations held in an irrevocable trust.

On June 19, 2014, the SFB issued Taxable Refunding Certificates of Participation Series 2014A-1, 2014A-2, and 2014A-3 (2014 COPs) for a combined total of \$226.1 million. The 2014 COPs include \$226.1 million of serial certificates with interest rates ranging from .32% to 2.38% and maturity dates ranging from 2016 to 2020. The 2014 COPs are subject to optional prepayment prior to maturity pursuant to the debt documents. The SFB realized net proceeds from the 2014 COPs of \$224.2 million, after payment of \$767 thousand for underwriters' discount and issuance costs and payment of \$1.1 million for accrued interest. The net proceeds of the 2014 COPs were used to advance-refund \$208.9 million of the Series 2005A-1, 2005A-2, and 2005A-3 COPs with a combined outstanding principal balance of \$320.0 million. The advance-refunding resulted in a combined debt service savings of \$8.3 million and a combined net present value economic gain of \$8.2 million (difference between the present values of the old debt and new debt service payments). The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9.6 million. This difference, reported as a deferred outflow of resources in the accompanying financial statements, is being amortized to interest expense on a straight-line basis through fiscal year 2020. The refunded Series 2005A-1, 2005A-2, and 2005A-3 COPs will be redeemed on September 1, 2015 by investments in United States government obligations held in an irrevocable trust.

The SFB Series 2010 COPs are not subject to mandatory sinking fund prepayment. However, as a means to provide a source of funds that will be available to pay the principal with respect to the Series 2010 COPs at maturity, the lease agreement with the trustee for the 2010 COPs will provide for mandatory sinking fund payments to be made as part of the base rent due under the lease. The SFB Series 2010 COPs are subject to extraordinary mandatory prepayment from unexpended proceeds pursuant to the debt documents. On February 6, 2014, the SFB redeemed \$9.5 million of the Series 2010 COPs pursuant to the extraordinary mandatory prepayment provisions in the debt documents. Beginning August 15, 2012, annual deposits to the sinking fund were scheduled to be made on August 15 of each year through August 15, 2027, at which time, the accumulated balance (including investment earnings and losses) in the sinking fund will be sufficient to retire the Series 2010 COPs on their stated maturity date of September 1, 2027. The sinking fund deposit requirements were adjusted to reflect the extraordinary mandatory prepayment redemption which occurred on February 6, 2014.

In current and prior fiscal years, the SFB refinanced various COPs through advance-refunding arrangements. Under the terms of the refundings, sufficient assets to pay all principal, redemption premiums, if any, and interest on the refunded COPs have been placed in irrevocable trust accounts at commercial banks and invested in U.S. securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities,

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and financial transactions of these trust accounts and the liability for these legally defeased COPs are not reflected in the accompanying financial statements.

Business-Type Activities

3. Universities

a. University of Arizona

The U of A utilizes COPs and various capital leases to acquire buildings, equipment, and land. The COPs are generally callable and are subject to prepayment.

b. Northern Arizona University

The NAU's COPs consist of various issues that are generally callable at a prescribed date with interest payable semiannually. All issues are at a fixed rate.

In prior fiscal years, the NAU defeased certain COPs by either placing the proceeds of new COPs, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded COPs. Accordingly, the trust account assets and liability for the defeased COPs are not included in the accompanying financial statements. At June 30, 2014, \$46.0 million of such outstanding COPs are considered defeased.

c. Arizona State University

At June 30, 2014, the ASU has issued fixed rate COPs. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain COPs of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased COPs are not included in the accompanying financial statements. The principal amount of all such COPs outstanding at June 30, 2014 was \$67.4 million.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2014 totaled \$7.2 million.

A summary of the COPs issued as of June 30, 2014 is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Governmental Activities:					
Department of Administration:					
4000 Bed Prison, Wastewater Upgrades, Forensic Unit 2008A	2008	2028	\$ 238,990	\$ 190,345	3.75 – 5.00
General Fund Budget Reconciliation 2010A	2010	2030	709,090	657,545	3.00 – 5.25
General Fund Budget Reconciliation 2010B	2010	2030	289,705	268,070	3.00 – 5.00
Refund 2001 PLTO, 2002A/2004B COPs	2013	2029	62,630	51,585	2.00 – 5.00
School Facilities Board:					
New School Construction 2004A	2004	2015	47,160	3,585	5.00
New School Construction 2004B	2005	2015	190,040	13,680	4.25 – 5.25
New School Construction 2004C	2005	2015	47,585	3,600	5.00
Refunding Certificates of 2003A	2005	2016	201,125	92,885	5.00
Refunding Certificates of 2003B	2005	2016	80,055	17,795	3.50 – 5.00
Refunding Certificates of 2004B	2005	2016	53,045	435	3.50 – 3.63
New School Construction 2008	2009	2024	580,035	454,870	4.00 – 5.75
Refunding Certificates of 2003B	2011	2020	11,100	11,100	3.00 – 3.50
Refunding Certificates of 2004B	2011	2020	10,000	10,000	3.00 – 5.00
Refunding Certificates of 2008	2011	2020	37,685	37,685	3.00 – 5.00
Qualified School Construction 2010	2011	2028	91,325	81,820	6.00
Refunding Certificates of 2003B and 2004A	2014	2020	29,945	29,945	2.00 – 5.00
Refunding Certificates of 2004B and 2004C	2014	2020	49,605	49,605	2.00 – 5.00
Refunding Certificates of 2005A-1	2014	2018	110,695	110,695	.32 – 1.47
Refunding Certificates of 2005A-2	2014	2019	60,390	60,390	.95 – 2.08
Refunding Certificates of 2005A-3	2014	2020	55,040	55,040	.95 – 2.38
Total Governmental Activities			<u>\$ 2,955,245</u>	<u>\$ 2,200,675</u>	

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Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Business-type Activities:					
Arizona State University:					
2002 Certificates of Participation	2002	2019	\$ 103,800	\$ 935	4.76
2004 Certificates of Participation	2005	2031	80,275	23,330	4.89
2005A Certificates of Participation	2005	2031	110,115	63,430	4.36
2006 Certificates of Participation	2006	2031	15,810	12,525	4.53
2006 Refunding Certificates of Participation	2007	2027	65,890	64,580	4.15
2011A Mercado Refunding Certificates of Participation	2011	2025	8,465	7,365	4.27
2013 Refunding Certificates of Participation	2013	2027	64,780	63,340	3.09
University of Arizona:					
Fixed Student Union	1999	2020	21,607	2,305	5.13 – 5.30
Chem.Bldg./Res.Life/Highland Pkg.Garage/Rfnd. COPS 1994A	2004	2015	42,020	275	5.25
Refund COPS 1999A	2005	2024	12,660	12,660	4.00 – 5.00
Refund COPS 1999	2005	2024	14,825	14,825	5.00
Refund COPS 2001A	2005	2022	16,330	14,715	4.13 – 5.00
Refund COPS 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	25,905	14,405	4.00 – 4.50
Refund COPS 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	58,650	53,460	4.13 – 5.00
Biomedical Research Collaborative Bldg. Project	2006	2031	18,240	14,655	4.00 – 5.00
Refund COPS 2001A, 2001B, 2002A, 2004B	2007	2031	105,080	96,030	4.00 – 4.50
Refund COPS 2003A	2012	2022	10,190	9,380	1.71 – 3.42
Refund COPS 2002B	2012	2023	20,600	20,340	3.00 – 5.00
Refund COPS 2003B & 2004A	2012	2031	124,940	124,940	3.00 – 5.00
Northern Arizona University:					
2004 Certificates of Participation	2005	2031	37,585	2,425	4.85
2005 Certificates of Participation	2006	2031	40,255	23,145	4.65
2006 Certificates of Participation	2006	2018	12,445	1,275	4.35
2013 Refunding Certificates of Participation	2013	2031	36,005	36,005	4.78
Total Business-type Activities			<u>\$ 1,046,472</u>	<u>\$ 676,345</u>	

Principal and interest debt service requirements on COPs outstanding at June 30, 2014 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service					
	Governmental Activities			Business-type Activities		
	Total Principal	Total Interest	Total Amount Required	Total Principal	Total Interest	Total Amount Required
2015	\$ 169,870	\$ 96,652	\$ 266,522	\$ 32,234	\$ 31,687	\$ 63,921
2016	188,955	89,273	278,228	36,795	28,468	65,263
2017	196,540	81,620	278,160	42,820	27,822	70,642
2018	203,090	74,891	277,981	48,265	25,858	74,123
2019	174,635	67,946	242,581	50,870	23,755	74,625
2020-2024	682,045	235,703	917,748	239,926	82,629	322,555
2025-2029	503,490	91,819	595,309	161,060	34,334	195,394
2030-2031	82,050	2,049	84,099	64,375	3,186	67,561
Total	<u>\$ 2,200,675</u>	<u>\$ 739,953</u>	<u>\$ 2,940,628</u>	<u>\$ 676,345</u>	<u>\$ 257,739</u>	<u>\$ 934,084</u>

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D. LEASES

1. Leases

The State has entered into capital lease agreements for the acquisition of buildings and equipment. Capital lease assets and liabilities are reported on the government-wide Statement of Net Position. A lease is reported as a capital lease if one or more of the following criteria are met:

- i Title to or ownership of the asset is transferred to the State at the end of the lease.
- i The lease contains a bargain purchase option.
- i The lease term is equal to 75% or more of the useful life of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25% of the total useful life of the asset.)
- i The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair market value of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25% of the total useful life of the asset.)

The future minimum lease payments for long-term capital leases as of June 30, 2014 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2015	\$ 56,295	\$ 11,423
2016	56,476	11,129
2017	54,493	10,764
2018	52,930	10,333
2019	50,198	10,200
2020-2024	241,105	51,359
2025-2029	125,883	49,667
2030-2034	31,240	43,025
2035-2039	-	8,522
2040-2072	-	2,191
Total minimum lease payments	668,620	208,613
Less: amount representing interest	(170,291)	(75,656)
Less: amount representing executory costs	(49,120)	-
Present Value of Net Minimum Lease Payments	\$ 449,209	\$ 132,957

2. Capital Assets Financed through Capital Leases

The following table summarizes the historical costs of assets acquired under capital leases (expressed in thousands):

	Governmental Activities	Business-type Activities
Land	\$ 445	\$ 5,175
Buildings	463,650	156,620
Equipment	40,607	1,857
	504,702	163,652
Less: accumulated depreciation	(73,626)	(36,369)
Carrying Value	\$ 431,076	\$ 127,283

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E. COMPENSATED ABSENCES

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. The compensated absence liability attributable to governmental activities will be liquidated primarily by the General Fund. During fiscal year 2014, the State paid for compensated absences as follows: 74.53% from the General Fund, 18.49% from other funds, and 6.98% from other major funds.

F. CHANGES IN LONG-TERM OBLIGATIONS

The following is a summary of changes in Long-term Obligations (expressed in thousands):

	Balance July 1, 2013, as restated	Increases	Decreases	Balance June 30, 2014	Due Within One Year	Due Thereafter
Governmental Activities:						
Long-term Debt:						
Revenue bonds	\$ 3,606,720	\$ -	\$ (200,525)	\$ 3,406,195	\$ 217,970	\$ 3,188,225
Grant anticipation notes	296,240	-	(48,530)	247,710	53,040	194,670
Certificates of participation	2,360,595	305,675	(465,595)	2,200,675	169,870	2,030,805
Capital leases	360,316	113,914	(25,021)	449,209	30,332	418,877
Notes payable	105,817	29,130	(45,082)	89,865	-	89,865
Premiums and discounts on debt	474,747	6,770	(53,652)	427,865	38,435	389,430
Total Long-term Debt	7,204,435	455,489	(838,405)	6,821,519	509,647	6,311,872
Other Long-term Liabilities:						
Compensated absences	311,850	216,533	(204,499)	323,884	169,663	154,221
Pollution remediation obligations	22,083	-	(1,562)	20,521	5,196	15,325
Total Other Long-term Liabilities	333,933	216,533	(206,061)	344,405	174,859	169,546
Total Long-term Obligations	\$ 7,538,368	\$ 672,022	\$ (1,044,466)	\$ 7,165,924	\$ 684,506	\$ 6,481,418
Business-type Activities:						
Long-term Debt:						
Revenue bonds	\$ 2,237,710	\$ 144,880	\$ (80,555)	\$ 2,302,035	\$ 75,010	\$ 2,227,025
Certificates of participation	714,735	145	(38,535)	676,345	32,234	644,111
Capital leases	135,519	1,847	(4,409)	132,957	5,142	127,815
Installment purchase contracts	5,758	-	(1,660)	4,098	1,292	2,806
Premiums and discounts on debt	123,014	17,801	(10,500)	130,315	10,630	119,685
Total Long-term Debt	3,216,736	164,673	(135,659)	3,245,750	124,308	3,121,442
Other Long-term Liabilities:						
Compensated absences	78,293	93,203	(88,019)	83,477	20,493	62,984
Total Other Long-term Liabilities	78,293	93,203	(88,019)	83,477	20,493	62,984
Total Long-term Obligations	\$ 3,295,029	\$ 257,876	\$ (223,678)	\$ 3,329,227	\$ 144,801	\$ 3,184,426

The above long-term obligations relating to governmental activities include internal service funds. Amounts for compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position because \$159.001 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net position.

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The beginning balance for long-term debt has been restated due to the implementation of GASB Statement No. 65, which requires deferred losses on refundings to be reclassified from long-term liabilities to deferred outflows of resources (Note 3.B.).

NOTE 8. INTERFUND TRANSACTIONS

INTERFUND BALANCES AND TRANSFERS

Interfund Receivables/Payables

Interfund balances as of June 30, 2014 are as follows (expressed in thousands):

Due From	Due To							Total Due To
	General Fund	Land Endowments Fund	Non-Major Governmental Funds	Universities Fund	Industrial Commission Special Fund	Non-Major Enterprise Funds	Internal Service Funds	
General Fund	\$ -	\$ 190	\$ 9,309	\$ 200,486	\$ -	\$ 10	\$ 2,380	\$ 212,375
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	4,040	-	3,113	-	-	134	-	7,287
Land Endowments Fund	-	-	7,038	-	-	-	12	7,050
Non-Major Governmental Funds	24,848	-	1,663	-	3	-	431	26,945
Non-Major Enterprise Funds	7,199	-	4,390	17,573	-	-	-	29,162
Internal Service Funds	6	-	-	-	-	-	8	14
Total Due From	\$ 36,093	\$ 190	\$ 25,513	\$ 218,059	\$ 3	\$ 144	\$ 2,831	\$ 282,833

Interfund balances represent (1) amounts due to and from the internal service funds for goods and services rendered, and (2) cash transferred between funds for various interfund activities subsequent to the balance sheet date. The cash is recorded in the fund which initiated the transfer, and a corresponding liability is recorded. The receiving fund records an interfund receivable.

Interfund Transfers

Transfers for the year ended June 30, 2014 are as follows (expressed in thousands):

Transferred From	Transferred To						Total Transfers Out
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Funds	Non-Major Governmental Funds	Universities Fund	Industrial Commission Special Fund	
General Fund	\$ -	\$ 516	\$ 31	\$ 161,947	\$ 719,743	\$ -	\$ 882,237
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	-	-	-	303,030	-	-	303,030
Land Endowments Fund	2,205	-	-	47,067	-	-	49,272
Non-Major Governmental Funds	146,423	395	-	7,975	-	8,000	162,793
Non-Major Enterprise Funds	94,760	-	-	54,622	17,573	-	166,955
Internal Service Funds	85,290	-	-	-	-	-	85,290
Total Transfers In	\$ 328,678	\$ 911	\$ 31	\$ 574,641	\$ 737,316	\$ 8,000	\$ 1,649,577

Interfund transfers represent legally authorized non-exchange transfers of funds. These transfers include: (1) legislative appropriations from the General Fund, (2) other legislative transfers, (3) statutorily required transfers, (4) transfers related to the elimination of funds, and (5) transfers for debt service.

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NOTE 9. ACCOUNTING CHANGES

A. FUND FINANCIAL STATEMENTS

Net Position has been restated as follows (expressed in thousands):

	Proprietary Funds
	<u>Universities</u>
Net Position, as previously reported	\$ 2,991,239
Prior period adjustment	<u>(21,279)</u>
Net Position, as restated	<u><u>\$ 2,969,960</u></u>

B. GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide Net Position has been restated as follows (expressed in thousands):

	Business-type Activities
Net Position, as previously reported	\$ 3,129,419
Prior period adjustment	<u>(21,279)</u>
Net Position, as restated	<u><u>\$ 3,108,140</u></u>

Prior Period Adjustment

In fiscal year 2014, the State implemented GASB Statement No. 65. This Statement required debt issuance costs, except any portion related to prepaid insurance costs, to be expensed in the period incurred rather than amortized annually. Additionally, for ASU, the capital assets were restated as a result of the write-off of debt issuance costs that had been previously capitalized and depreciated.

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NOTE 10. GOVERNMENTAL FUND BALANCES

Detail of the fund balance categories and classifications shown in the aggregate on the governmental funds balance sheet for the year ended June 30, 2014 are as follows (expressed in thousands):

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Total
Fund Balances:					
Nonspendable:					
Inventory	\$ 9,600	\$ 6,833	\$ -	\$ -	\$ 16,433
Permanent fund principal	-	-	4,871,849	-	4,871,849
Restricted for:					
General government	16,565	-	-	65,717	82,282
Health and welfare	57,204	-	-	13,029	70,233
Inspection and regulation	5,539	-	-	-	5,539
Education	3,761	-	-	491,771	495,532
Protection and safety	23,447	-	-	-	23,447
Natural resources	3,615	-	-	9,091	12,706
Debt service	-	-	-	57,342	57,342
Capital projects	-	793,713	-	311,011	1,104,724
School facilities improvements	14,259	-	-	-	14,259
Committed to:					
General government	-	-	-	134,861	134,861
Health and welfare	21,982	-	-	149,773	171,755
Inspection and regulation	2,204	-	-	118,023	120,227
Education	14,047	-	-	-	14,047
Protection and safety	11,155	-	-	89,921	101,076
Transportation	-	170,725	-	-	170,725
Natural resources	13,716	-	-	71,143	84,859
School facilities improvements	16,733	-	-	-	16,733
Unassigned:	(189,238)	-	(29,744)	-	(218,982)
Total Fund Balances	\$ 24,589	\$ 971,271	\$ 4,842,105	\$ 1,511,682	\$ 7,349,647

NOTE 11. FUND DEFICIT

A. RISK MANAGEMENT FUND (RMF)

The RMF, an internal service fund, had a deficit of \$353.9 million primarily due to the RMF receiving annual funding only for expected paid insurance losses (including loss adjustment expenditures) within the State's self-insured retention for the specific fiscal year. Accrued insurance losses of the RMF are not considered when determining funding for each fiscal year.

B. RETIREE ACCUMULATED SICK LEAVE FUND (RASL)

The RASL, an internal service fund, pays retirees for their accumulated sick leave upon retirement from State service when they meet certain criteria. Beginning with fiscal year 2008, the State applied the provisions of GASB Statement No. 16, *Accounting for Compensated Absences* to the RASL. This results in a liability in the RASL which is significantly greater than the actual funding of the RASL, because the liability is based upon an estimate of the total RASL benefit earned by existing employees at the balance sheet date; however, State agencies pay for only one year based on a 0.40% charge on gross payroll. The \$153.9 million fund deficit is primarily due to the above funding mechanism.

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NOTE 12. JOINT VENTURES

A. LARGE BINOCULAR TELESCOPE CORPORATION

The U of A is a participant in the Large Binocular Telescope Corporation (LBT). The LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the U of A and the Arcetri Astrophysical Observatory in Florence, Italy. The purpose of the joint venture is to design, develop, construct, own, operate, and maintain a binocular telescope located in Arizona. The current members of the LBT are the U of A, INAF Astrophysical Observatory, Research Corporation, Ohio State University, and LBT Beteiligungsgesellschaft.

The U of A has committed resources equivalent to 25% of the LBT's construction costs and annual operating costs. As of June 30, 2014, the U of A has made cash contributions of \$18.2 million toward the project's construction costs, which were recorded as noncurrent investments on the Statement of Net Position. The U of A's financial interest represents its future viewing/observation rights. As of December 31, 2007, the assets had been substantially completed and the telescope entered the commissioning phase. During calendar year 2007, the telescope became operational for research purposes; thus, depreciation of the property and equipment has commenced. The U of A recorded its proportionate share of the use of the viewing/observation rights, \$815 thousand in calendar year 2013, as a reduction in its investment. At June 30, 2014, the investment totaled \$12.8 million. According to the most recent draft financial statements of the LBT for the year ended December 31, 2013, assets, liabilities, revenues, and expenses totaled \$125.0 million, \$3.0 million, \$13.0 million, and \$16.0 million, respectively.

Information regarding the LBT's financial statements can be obtained from the University of Arizona Comptroller at the University of Arizona, Financial Services, 1303 E. University Blvd., Box 4, Tucson, AZ 85719-0521.

B. GIANT MAGELLAN TELESCOPE ORGANIZATION

The Giant Magellan Telescope Organization (GMTO) is a non-stock, nonprofit, jointly governed corporation founded to own and administer the planning, design, construction, and operation of the 25-meter Giant Magellan Telescope, a proposed astronomical telescope and its associated buildings, equipment and instrumentation, to be located in northern Chile. The GMTO is jointly governed by several leading educational and research institutions from the United States, South Korea, and Australia, including the U of A. The U of A comprises two of the fifteen members of the GMTO Board of Directors, and is one of eleven founders and participants. The GMTO will hold all rights, title and interest to and in the telescope. Although the U of A does not have a defined equity interest, as a founder the U of A will receive viewing rights to the telescope in proportion to their voluntary contributions to the project.

Although no contributions were made during the current fiscal year, the U of A has contributed \$9.8 million to the GMTO as of June 30, 2014, and future contributions are expected. The U of A will also be responsible for manufacturing the telescope's mirrors and will receive compensation from other GMTO founders and participants based on individual contractual agreements. As of June 30, 2014, the U of A has received payment on nine contracts related to the project: \$24.3 million from Observatories of the Carnegie Institution of Washington for mirror construction and process development; \$13.5 million from the GMTO for mirror construction; \$8.6 million from the GMTO for acquisition of glass and mold materials; \$3.8 million from the GMTO for acquisition of glass; \$2.5 million from the Observatories of the Carnegie Institution of Washington to develop mirror testing systems; \$1.7 million from the GMTO for acquisition of glass; \$371 thousand from the GMTO to develop mirror testing systems; \$270 thousand from the GMTO for design study; and \$37 thousand from the GMTO for engineering support.

NOTE 13. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE

A. INSURANCE LOSSES

The Department of Administration – Risk Management Division manages the State's property, environmental, general liability, and workers' compensation losses. The State has determined that the management of these losses can be performed effectively and efficiently through the Risk Management Division. Consequently, all agencies are required to participate in this program. The State's Risk Management Division evaluates the proper mix of purchased commercial insurance and self-insurance annually.

The Special Fund provides payment of workers' compensation benefits in the following areas: claims against uninsured employers; continuing benefits in claims against insolvent workers compensation insurance carriers and bankrupt self-insured

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employers; payment for vocational rehabilitation; continuing medical benefits for pre-1973 workers compensation claims; and, partial coverage of benefits for second injury claims (apportionment claims).

The State records claims liability when the reported loss is probable and reasonably estimated. On an annual basis, independent actuarial firms are engaged to estimate the State's total year-end outstanding claims liability, which takes into account recorded claims and related allocated claims adjustment expenditures, loss development factors, and an estimate for incurred but not reported claims. There were no non-incremental claims adjustment expenses included in the liability for claims and adjustments.

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund and the Special Fund. As discussed in the above paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Division will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Investment earnings (including interest, dividends, and securities lending income) and assessments on gross premium revenues primarily fund the Special Fund. To provide funding for the payment of these workers' compensation benefits, the Special Fund may direct the payment of assessments into the State Treasury under A.R.S. § 23-1065(A) (general liability assessment – not to exceed 1.5%), A.R.S. § 23-1065(F) (apportionment assessment - not to exceed .5%), and A.R.S. § 23-966(D) (insolvency assessment - not to exceed .5%), in a total amount not to exceed 2.5% of all premiums received by private insurance carriers and what would have been paid by self-insured employers if they had been fully insured by an insurance carrier authorized to transact workers compensation insurance during the immediately preceding calendar year. The Special Fund levied the following assessment taxes for calendar year 2014: 1.14% assessment under A.R.S. § 23-1065(A), .25% assessment under A.R.S. § 23-1065(F), and .36% assessment under A.R.S. § 23-966(D).

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2014. The total estimated loss reserve of \$484.1 million increased by less than 2%, or \$6.3 million, over the prior year estimated loss reserve of \$477.8 million. Reserves were strengthened for uninsured claims in the amount of \$6.6 million, but otherwise there were no major shifts in any award categories. A confidence level of 80% was used in calculating medical and compensation related liabilities. A confidence level of 80% indicates a confidence that the estimated liability will be adequate to cover actual costs 80 out of 100 years. The reserves were discounted at an assumed rate of .64% for the compensation benefits and zero percent for the medical benefits. For medical benefits, it was assumed that the inflation in medical costs will equal the investment return earned by the Special Fund on those reserves.

During fiscal year 2014, the Legislature passed Senate Bill 1181 (S. B. 1181), which will transfer all insolvent workers' compensation insurance carrier administration and related liabilities from the Special Fund to the Arizona Property and Casualty Guaranty Fund managed by the Department of Insurance effective July 1, 2015. The liability for bankrupt self-insured employers will remain a liability of the Special Fund. Additionally, as a result of the passage of S. B. 1181, the assessment authority for the Special Fund liability was reduced by 1%. Effective July 1, 2015, the Special Fund assessment that can be levied may not exceed 1.5%, which is allocated as follows: 1% under A.R.S. § 23-1065(A) (reduced from 1.5%) and .5% percent under A.R.S. § 23-1065(F). The A.R.S. § 23-966(D) assessment was eliminated.

The Special Fund has filed proofs of claim with ancillary receivers and liquidators regarding the recovery of statutory deposits and other monies for insolvencies. Since the actual amount that will ultimately be received cannot be determined, the Special Fund will continue to recognize receipt of insolvent carrier deposits as revenue at the time received rather than recording a receivable.

Occasionally, the Risk Management Division agrees with claimants to purchase an annuity contract to settle specific claims when it is determined that it is in the best interest of the State to do so. In these instances, the State obtains a release agreement from the claimant and transfers its obligation to make future periodic payments to an assignment company. The State requires a secondary guarantor which is obtained when the assignment company transfers the obligation to make the payments through the use of a qualified assignment (typically a life insurance company with an approved rating). As a result of these requirements, the likelihood that the State will be required to make future payments on these claims is remote.

There have been no significant reductions in the current fiscal year insurance coverage. There have been no settlements that have exceeded insurance premium coverage in the last three fiscal years.

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The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2013 and June 30, 2014 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2013	\$ 364,763	\$ 80,719	\$ 49,867	\$ 395,615
2014	395,615	92,284	58,570	429,329
Industrial Commission Special Fund:				
2013	468,933	33,555	24,641	477,847
2014	477,847	31,177	24,880	484,144

B. LITIGATION

In *Cave Creek Unified School District vs. State of Arizona*, plaintiffs claimed that A.R.S. § 15-901.01, which the voters had enacted by referendum and required the Legislature to appropriate funds to adjust school equalization assistance funding for inflation by increasing both the base level and the transportation components of the revenue control limit each fiscal year by a statutorily defined growth rate, had been violated with the Legislature's fiscal year 2010-2011 K-12 education budget reconciliation bill because only the transportation component of the revenue control limit was increased. The plaintiffs further asserted that because the voters enacted A.R.S. § 15-901.01 by referendum, the bill also violated the Arizona Constitution's Voter Protection Act (VPA) provisions, which prohibit the Legislature from eliminating voter-enacted measures and from altering them except as the VPA allows. The Trial Court denied the plaintiff's application for declaratory judgment and injunctive relief and granted the State's motion to dismiss the amended complaint for failure to state a claim for which relief could be granted. The Court of Appeals reversed the Trial Court's decision. The State petitioned the Supreme Court for review, which it granted. The Supreme Court considered whether the voters could constitutionally impose a mandate on the Legislature to increase appropriations. The Supreme Court has found that the voters could impose restrictions on the Legislature's discretion through voter-protected statutes and that the Legislature must fund, on a go-forward basis, all components of the base level A.R.S. § 15-901.01. The Supreme Court remanded the case to Superior Court for further proceedings. The Superior Court then bi-furcated the post-judgment proceedings and has determined that the base level should be recalculated as though the Legislature had never stopped funding the inflation adjustments. This decision is now on appeal by the State. The State's opening brief has been stayed pending court-supervised mediation that began in February, 2015. The Superior Court also set a one week evidentiary hearing to determine whether the State should or could retroactively pay schools for the inflationary increases that it did not make. The Superior Court has stayed issuance of a decision on this issue pending court-supervised mediation. If the appellate court affirms the Superior Court's declaration that the Legislature must recalculate the revenue control limit by compounding the inflation increases that were not made in the past, it is possible that the State would have to appropriate approximately \$320.0 million more in educational spending for fiscal year 2014-2015 to pay the cost of increasing inflation adjustments to the base level. The potential outcome of retroactive payment of unpaid past inflationary increase is uncertain at this time, but if there were an unfavorable outcome, it is possible that the State could incur losses of approximately \$1.2 billion.

The State has a variety of claims pending against it that arose during the normal course of its activities. Management believes, based on advice of legal counsel, losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the State. All losses for any unsettled litigation or contingencies involving workers' compensation, medical malpractice, construction and design, highway operations, employment practices, criminal justice, fidelity and surety, environmental property damage, general liability, environmental liability, building and contracts, auto liability, or auto physical damage are determined on an actuarial basis and included in the Accrued Insurance Losses of the internal service funds and the Industrial Commission Special Fund.

C. ACCUMULATED SICK LEAVE

Sick leave includes any approved period of paid absence granted an employee due to illness, injury, or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. State employees are eligible to receive payment for an accumulated sick leave balance of at least 500 hours, with a maximum of 1,500 hours, upon retirement

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directly from State service. The benefit value is calculated by taking the State employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30 thousand. The benefit shall be paid either in a lump sum or in installments over a three-year period. The RASL Fund is accounted for in the financial statements as an internal service fund and accounts for the retiree accumulated sick leave liability of \$156.7 million at June 30, 2014.

D. UNCLAIMED PROPERTY

The State of Arizona's Uniform Unclaimed Property Act requires the deposit of certain unclaimed assets into a managed agency fund. A total of approximately \$1.1 billion (net of refunds issued) has been collected since the inception of the fund. The State is also holding securities valued at \$44.0 million and mutual funds valued at \$10.1 million. In accordance with A.R.S. § 44-313 and A.R.S. § 44-314, for fiscal year 2014, \$24.5 million was deposited in the Department of Revenue Administrative Fund, \$2.5 million was deposited in the Housing Trust Fund, \$2.0 million was deposited in the Seriously Mentally Ill Housing Trust Fund, \$49.2 million was deposited in the General Fund, and \$1.2 million was deposited in other funds as required by State statute. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. At June 30, 2014, \$373.7 million of this liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona.

E. CONSTRUCTION COMMITMENTS

The ADOT had outstanding commitments under construction contracts of \$632.2 million at June 30, 2014.

	(in thousands)	
	Expenditures to Date	Remaining Commitments
Construction contracts:		
Rural roadways	\$ 366,707	\$ 167,821
Small urban roadways	72,543	20,656
Urban roadways	127,473	51,015
Large urban roadways	156,870	123,207
General roadways	109,946	64,614
Sub-total	833,539	427,313
Design contracts	346,306	89,679
Other commitments	347,787	115,179
Total	<u>\$ 1,527,632</u>	<u>\$ 632,171</u>

F. ARIZONA STATE LOTTERY

Annuities are purchased for all prizes over \$400 thousand for which winners will receive the jackpot in annual installments for The Pick on-line game. The annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, S & P, Moody's, Duff & Phelps, or Weiss. Purchases of annuities transfer liabilities for prizes to the insurance company. However, the Lottery may incur liabilities for prizes in the event of a default of an insurance company. Aggregate future payments to prize winners on existing annuities totaled \$42.5 million at June 30, 2014. Approximately \$38.2 million of the total aggregate future payments at June 30, 2014 relate to annuities purchased from five separate insurance companies, of which approximately \$12.4 million relates to a single insurance company.

NOTE 14. TOBACCO SETTLEMENT

The State is one of many states participating in the settlement of litigation with the tobacco industry over the reimbursement of healthcare costs. The settlement money is intended to compensate the State for costs it has incurred in providing health and other

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services to its citizens that were necessitated by the use of tobacco products. The State expects to receive settlement payments through 2025.

The State recorded tobacco settlement revenue of \$100.8 million in the fund statements and the government-wide statements in fiscal year 2014. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable. These adjustments include a volume adjustment, which could reflect any decreasing cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable and there is no obligation for the tobacco companies to make settlement payments until cigarettes are shipped, the State did not record a receivable for the future payments related to cigarette sales after June 30, 2014.

NOTE 15. SUBSEQUENT EVENTS

In December 2014, the ADOT issued \$376.8 million in Transportation Excise Tax Revenue Refunding Bonds (Maricopa County Regional Area Road Fund) 2014 Series (2014 Bonds) to: (1) refund, in advance of maturity, the 2007 Series, 2009 Series, and 2010 Series, and (2) pay the costs of issuance. The 2014 Bonds include serial bonds with interest rates ranging from 4.00% to 5.00%, and maturity dates ranging from July 1, 2015 to July 1, 2025. The 2014 Bonds are subject to optional redemption prior to their respective maturity dates. The bonds being refunded will be paid by investments held in a trust account with U.S. Bank National Association.

In December 2014, the U of A issued \$129.2 million in SPEED Revenue Bonds, Series 2014 (2014 Bonds), to: (1) acquire, construct, equip and improve the Bioscience Partnership Building project and the Bioscience Research Laboratories project, and (2) pay costs of issuance. The 2014 Bonds include both serial and term bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2017 to 2045. The 2014 Bonds are subject to optional and mandatory redemption prior to their stated maturity dates pursuant to the debt documents. The sources for payment of the 2014 Bonds debt service will be derived from certain revenues of the State Lottery and monies of the U of A.

In January 2015, the ADOT issued \$377.5 million in Highway Revenue Refunding Bonds, Series 2015 (2015 Bonds), to: (1) refund, in advance of maturity, the Series 2005B, Series 2006, Series 2008A, and Series 2008B, and (2) pay costs of issuance. The 2015 Bonds include serial bonds with interest rates ranging from 2.00% to 5.00%, and maturity dates ranging from July 1, 2015 to July 1, 2033. The 2015 Bonds are subject to optional redemption prior to maturity pursuant to the debt documents. The bonds being refunded will be paid by investments held in a trust account with U.S. Bank National Association.

NOTE 16. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

The accounting policies of the State's component units conform to U.S. GAAP applicable to governmental units adopted by the GASB, except for those component units affiliated with the State's Universities. Because the component units affiliated with the Universities are not governmental entities, they follow FASB statements for not-for-profit organizations for financial reporting purposes. Each component unit has a June 30 year-end.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Measurement Focus and Basis of Accounting

The State's component units and component units affiliated with the Universities are presented using the economic resources measurement focus and the accrual basis of accounting.

2. Net Assets

Component units affiliated with the Universities classify net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the component units affiliated with the Universities and changes therein are classified and reported as follows:

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- i *Unrestricted net assets* include assets and contributions that are not restricted by donors or for which such restrictions have expired.
- i *Temporarily restricted net assets* include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundations), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. Donor-restricted contributions are classified as temporarily restricted even if the restrictions are satisfied in the same reporting period in which the contributions are received.
- i *Permanently restricted net assets* include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity.

3. Cash and Cash Equivalents

Cash and cash equivalents includes monies held in certificates of deposit, overnight money market accounts, and U.S. Government or U.S. Treasury money market funds with original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value.

4. Investments

The fair values of publicly traded securities are based on quoted market prices and exchange rates, if applicable. Absolute return limited partnership interests are recorded at fair value based on quoted market prices (where the underlying investment is a mutual fund) or as determined by the fund manager. Purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investment income or loss comprises the sum of realized and unrealized gains and losses on investments and interest and dividends, less an investment management fee.

In addition, investments include Universities' endowment funds totaling \$335.4 million managed by the Foundations. These funds are primarily held in pooled endowment funds managed for the Universities under service contracts with the Foundations and invested in the Foundations' endowment pools.

5. Income Taxes

The Universities-affiliated component units qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, except for the ACFFC and, accordingly, there is no provision for income taxes in the accompanying financial statements. In addition, they qualify for the charitable contribution deduction and have been classified as organizations that are not private foundations. Any unrelated business income would be taxable. The ACFFC is exempt from taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code. The ACFFC does not qualify for the charitable contribution deduction.

6. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

7. Net Assets Released from Restriction

The major Universities-affiliated component units' expenses are not incurred in the temporarily restricted or permanently restricted net asset categories. As the restrictions on these net assets are met, the net assets are reclassified to unrestricted net assets. The total net assets reclassified are reported as net assets released from restriction in the accompanying Statement of Activities.

8. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position by the component units that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources increase net position, similar to assets. The component units' deferred outflows of resources represent losses resulting from debt refundings.

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9. Endowments

The management of the ASU Foundation and the U of A Foundation endowments is governed by laws in the State of Arizona created under the Arizona Management of Charitable Funds Act.

The ASU Foundation has interpreted State statute as requiring the preservation of the fair value of the original gifts at the gift date of the donor restricted endowment funds. As a result of this interpretation, the ASU Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The ASU Foundation's investment policies are reviewed periodically. The long-term financial objectives are to produce a relatively predictable and stable payout stream that increases over time at least as fast as the general rate of inflation and to preserve intergenerational equity by achieving growth of the investments at a rate that at least keeps pace with the general rate of inflation, net of spending.

The U of A Foundation endowment payout rate is a percentage (4% of the average fair value at the three previous calendar year-ends) of the fair value of each endowment account, as determined from time to time by the U of A Foundation's Board. The U of A Foundation considers the following factors in making a determination to appropriate donor-restricted endowment funds: the net rate of return earned by each endowment account in each of the five most recent fiscal years; the net real rate of return (as measured by the Higher Education Price Index) earned by the endowment in each of the five most recent fiscal years (i.e., the duration and preservation of the endowment fund); payout rates established by other university endowments as published in the Commonfund and National Association of College and University Business Officers survey; any unusual or extraordinary circumstances impacting the U of A flow of funds from other sources (i.e., tuition revenues, State appropriations, etc.); the extent to which programs benefiting from the payout rate rely on these funds to achieve their goals and objectives; general economic conditions; the possible effect of inflation or deflation; and the expected total return from income and appreciation of investments per the most recent asset allocation study.

The U of A Foundation's goal is to manage endowment assets such that the annual nominal return exceeds the annual "hurdle rate" (the sum of the payout and the cost recovery fee) so the endowment principal is able to grow and continue to fund in perpetuity the set of activities envisioned by the donor at the time of the gift. The U of A Foundation expects its endowment funds to provide an annual average rate of return of 8.9% with a standard deviation of 8.8%.

10. Use of Estimates

The preparation of the Universities-affiliated component units' financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. DEPOSITS AND INVESTMENTS

1. Component Units

a. Deposits and Investment Policies

The investments of the WIFA are stated at fair value, except guaranteed investment contracts, which are stated at cost since they are non-participating contracts. The investments of the UAHN are stated at fair value.

b. Custodial Credit Risk - Deposits and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from the outside party. The WIFA and the UAHN do not have a formal policy regarding custodial credit risk for deposits.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The WIFA and the UAHN do not have a formal policy regarding custodial credit risk for investments. The investments of the UAHN are uninsured and held by brokers in the UAHN's name.

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c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The WIFA does not have a formal policy regarding interest rate risk. The following table presents the interest rate risk for the WIFA utilizing the segmented time distribution method as of June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Guaranteed investment contracts	\$ 80,104	\$ 2,109	\$ 38,477	\$ -	\$ 39,518
Money market mutual funds	11,533	11,533	-	-	-
U.S. agency securities	33,928	-	23,977	-	9,951
U.S. Treasury securities	244	-	244	-	-
Total	\$ 125,809	\$ 13,642	\$ 62,698	\$ -	\$ 49,469

The UAHN's investment policy limits the portfolio duration related to debt securities to the Lehman Brothers Intermediate Government/Credit Index. This is an index based on all publicly issued intermediate government and corporate debt securities with average maturities of four to five years. The following table presents the estimated maturities of the UAHN's investments, utilizing the segmented time distribution method as of June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Commercial paper	\$ 4,013	\$ 4,013	\$ -	\$ -	\$ -
Global fixed income debt securities	2,782	502	1,673	607	-
Money market mutual funds	40,577	40,577	-	-	-
U.S. fixed income debt securities	39,044	3,551	20,684	5,463	9,346
U.S. Treasury securities	6,208	6,208	-	-	-
Total	\$ 92,624	\$ 54,851	\$ 22,357	\$ 6,070	\$ 9,346

d. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. The WIFA does not have a formal policy regarding credit risk but their investments are in accordance with the master bond indenture. The following table presents the WIFA's investments which were rated by S & P and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	AAA	AA
Guaranteed investment contracts	\$ 80,104	\$ 40,586	\$ 39,518
Money market mutual funds	11,533	11,533	-
U.S. agency securities	33,928	-	33,928
Total	\$ 125,565	\$ 52,119	\$ 73,446

The UAHN's investment in fixed income securities is limited to investment grade securities with a credit rating of BBB, or equivalent, or better. The following table presents the UAHN's investments which were rated by S & P and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	CCC Thru D	A-1	Not Rated
Commercial paper	\$ 4,013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,013	\$ -
Global fixed income debt securities	2,782	-	1,752	807	223	-	-	-
Money market mutual funds	40,577	-	-	-	-	-	-	40,577
U.S. fixed income debt securities	39,044	16,410	7,257	5,390	8,130	4	-	1,853
Total	\$ 86,416	\$ 16,410	\$ 9,009	\$ 6,197	\$ 8,353	\$ 4	\$ 4,013	\$ 42,430

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e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. At June 30, 2014, investments in any one issuer, that were more than 5% of the WIFA's total investments, are as follows: (i) Bayerische Landesbank (fair value of \$40.6 million, or 12.6%), (ii) Royal Bank of Canada (fair value of \$31.4 million, or 9.7%), and (iii) Federal Home Loan (fair value of \$33.9 million, or 10.5%).

2. Universities-Affiliated Component Units

Investments of the Universities-affiliated component units include the following amounts at June 30, 2014. Investments are stated at fair value (expressed in thousands):

	ASU Foundation	U of A Foundation
Money market funds and cash equivalents	\$ 40,526	\$ -
Domestic/international equity securities and mutual funds	542,429	256,670
U.S. fixed income obligations and mutual funds	107,687	135,719
Absolute return limited partnerships and funds	-	213,644
Other investments	69,788	162,125
Total Investments	<u>\$ 760,430</u>	<u>\$ 768,158</u>

C. PROGRAM LOANS

The WIFA has made loans to local governments and others in Arizona to finance various projects pursuant to the requirements of the Clean Water and Safe Drinking Water Acts. The loans are generally payable in semi-annual installments due January 1 and July 1 of each year, including interest. However, several loans are payable monthly or quarterly. Changes in the program loans during fiscal year 2014 are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Clean Water Fund	\$ 769,097	\$ 25,611	\$ (47,099)	\$ 747,609
Drinking Water Fund	346,215	34,497	(34,015)	346,697
Total	<u>\$ 1,115,312</u>	<u>\$ 60,108</u>	<u>\$ (81,114)</u>	<u>\$ 1,094,306</u>

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes, or from special assessments. Most loans have a .30% to 3.00% annual administrative fee. When loans have been repaid, the principal and interest for the pledged loans are placed in restricted accounts used to make bond payments. For loans that are not pledged, the money is placed in a fund from which additional loans are made.

Some program loans require a monthly or quarterly payment into a debt service reserve to assure payments of the loans. The debt service reserve is a liability of the WIFA to the borrowers and interest on the reserve accrues to the borrowers. As of June 30, 2014, the debt service reserve was \$69 thousand and \$2.0 million for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

D. PLEDGES RECEIVABLE

Pledges receivable (unconditional promises to give) are recorded at their net realizable value, which is net of a discount and loss allowance. The ASU Foundation's pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 1.20% to 10.90%. An allowance for uncollectible pledges is estimated based on the ASU Foundation's collection history and is recorded as a reduction to contribution support and revenue and an increase in the allowance for uncollectible pledges.

STATE OF ARIZONA
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JUNE 30, 2014

Pledges receivable, as of June 30, 2014, include the following (expressed in thousands):

	ASU Foundation
Gross pledges receivable	\$ 155,621
Present value discount	(10,289)
Allowance for uncollectible pledges	(39,808)
Net Pledges Receivable	<u>\$ 105,524</u>

E. DIRECT FINANCING LEASE AGREEMENTS

1. ASU Foundation

The ASU Foundation leases a portion of the Fulton Center building (the ASU Foundation's headquarters) to the ASU under a direct financing lease. At the end of lease, the ASU Foundation and affiliates will gift their portion of the building to the ASU and the ASU will receive title to the building. The ASU Foundation's net investment in this direct financing lease at June 30, 2014 is \$24.5 million.

2. ACFFC

Pursuant to a Sublease Agreement, dated April 7, 2004 and amended on April 1, 2009 (the Sublease), Nanotechnology Research, LLC, a wholly-owned subsidiary of the ACFFC, leases its interest in the Research Park to the ASU. The ASU will make lease payments at times in amounts sufficient to pay all principal and interest on the Series 2009A and 2009B Bonds. The Sublease has successive annual renewals without action from either party through the period ending March 31, 2034. The Sublease is subject to early termination by Nanotechnology or the ASU upon the payment in full of the Series 2009A and 2009B Bonds. Upon termination or expiration of the Sublease, the ACFFC's interest in the premises, including all buildings and improvements on the leased premises, transfers to the ASU without further consideration. The ACFFC's net investment in the Nanotechnology facility direct financing lease is \$31.0 million at June 30, 2014.

Pursuant to the ASU Lease Agreement, dated July 1, 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of the ACFFC, leases its interest in the non-residential portion of Hassayampa Academic Village (Hassayampa, HAV) to the ASU which consists of the academic, tutorial, retail, and food service facilities. The lease was amended effective September 1, 2008 to change the annual renewal period through June 30, 2039 to correspond with the maturity of the Hassayampa 2008 Bonds. Any right, title, or interest of Hassayampa in and to the academic portions of the Hassayampa project will pass to the ASU without further cost upon payment in full of the Hassayampa 2008 Bonds. Lease payments are based on the fixed interest rates determined by the Hassayampa 2008 Bonds maturity schedule. The ACFFC's net investment in the McAllister (HAV) direct financing lease is \$12.1 million at June 30, 2014.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

F. CAPITAL ASSETS

Capital asset activity for the UAHN for the fiscal year ended June 30, 2014 was as follows (expressed in thousands):

	University of Arizona Health Network and Subsidiaries				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Non-depreciable capital assets:					
Land	\$ 14,819	\$ -	\$ -	\$ (16)	\$ 14,803
Construction in progress	43,942	58,275	-	(89,130)	13,087
Total Non-depreciable Capital Assets	58,761	58,275	-	(89,146)	27,890
Depreciable capital assets:					
Buildings	455,456	13	-	6,125	461,594
Improvements other than buildings	1,210	-	-	16	1,226
Equipment	314,872	-	(852)	83,005	397,025
Total Depreciable Capital Assets	771,538	13	(852)	89,146	859,845
Less accumulated depreciation for:					
Buildings	(185,869)	(14,562)	-	-	(200,431)
Improvements other than buildings	(997)	(120)	-	-	(1,117)
Equipment	(236,959)	(31,855)	642	-	(268,172)
Total Accumulated Depreciation	(423,825)	(46,537)	642	-	(469,720)
Total Depreciable Capital Assets, Net	347,713	(46,524)	(210)	89,146	390,125
Total UAHN Capital Assets, Net	\$ 406,474	\$ 11,751	\$ (210)	\$ -	\$ 418,015

Capital assets for the Universities-affiliated component units for the fiscal year ended June 30, 2014 include the following (expressed in thousands):

	ACFFC	CRC	Downtown Phoenix Student Housing
Buildings and improvements	\$ 185,011	\$ 22,279	\$ 114,091
Furniture, fixtures, and equipment	80,768	5,272	10,447
Total cost or donated value	265,779	27,551	124,538
Less: Accumulated Depreciation	(90,355)	(8,931)	(26,375)
Total Property and Equipment, Net	\$ 175,424	\$ 18,620	\$ 98,163

G. LONG-TERM OBLIGATIONS

1. Component Units

a. Water Infrastructure Finance Authority

The WIFA's bonds are callable and interest is payable semiannually. The bonds are special obligations of the WIFA payable solely from and secured by the WIFA's assets. The bonds are not obligations, general, specific, or otherwise, of the State or any other political subdivision, thereof, other than the WIFA.

In prior fiscal years, the WIFA refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

the accompanying financial statements. The amount outstanding on the refunded bonds for the WIFA at June 30, 2014 totaled \$271.7 million.

During fiscal year 2014, bond issuance premiums and deferred losses on refunding of bonds were amortized on a straight-line basis based on the term of the underlying bonds payable. In fiscal year 2014, the remaining balance of the deferred bond issuance costs of \$4.2 million was written off per GASB 65. Amortization expense as of June 30, 2014 for bond issuance premiums and deferred losses on refunding of bonds was \$7.7 million and \$3.5 million, respectively.

The security for the bonds includes a pledge of monies and investments in the accounts held by the Trustee and the Financial Assistance accounts held for the WIFA by the State Treasurer and all pledged loans.

At the end of fiscal year 2014, the amount of money and investments held by the Trustee and the monies held by the State Treasurer was \$323.6 million. The principal and interest repayments received on pledged loans in fiscal year 2014 were \$103.7 million. The principal and interest paid on the outstanding bonds in fiscal year 2014 was \$84.0 million.

b. University of Arizona Health Network and Subsidiaries

The UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture). In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property. The UMC is the only member of the obligated group responsible for the public debt offerings of the UMC.

For the year ended June 30, 2014, the UMC violated the debt service coverage ratio covenant included in the Indenture. The Indenture requires management to perform certain actions during the year immediately following the year of violation. If management performs these actions, an event of default is avoided. Management intends to fulfill these actions. At June 30, 2014, the bonds subject to the Indenture are not in default; accordingly, their maturities have not been adjusted from the original maturities.

The UPH is also subject to certain financial and nonfinancial covenants under its bond agreements. The UPH was in violation of certain covenants as of June 30, 2014; however, these covenant violations have been waived by the holder of the debt; accordingly, their maturities have not been adjusted from the original maturities.

The UAHN has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds, which totaled \$24.9 million at June 30, 2014, are held by the trustee and are reflected in assets held by trustee in the accompanying financial statements.

The bonds or other obligations of the UAHN do not constitute general obligations of the ABOR, the U of A, the State, or any political subdivision thereof.

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2014 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2014
Component Units:				
Water Infrastructure Finance Authority	2004-2012	2015-2031	.2-5.00%	\$ 818,750
University of Arizona Health Network and Subsidiaries	2004-2014	2015-2042	4.08-6.48%	336,597

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2014 are as follows (expressed in thousands):

Annual Debt Service				Annual Debt Service			
Fiscal Year	Water Infrastructure Finance Authority			Fiscal Year	University of Arizona Health Network and Subsidiaries		
	Principal	Interest	Total		Principal	Interest	Total
2015	\$ 46,495	\$ 36,742	\$ 83,237	2015	\$ 6,947	\$ 17,921	\$ 24,868
2016	49,990	34,695	84,685	2016	7,295	17,572	24,867
2017	49,110	32,881	81,991	2017	7,670	17,195	24,865
2018	52,300	31,077	83,377	2018	8,070	16,794	24,864
2019	53,045	29,014	82,059	2019	8,490	16,374	24,864
2020-2024	289,365	104,797	394,162	2020-2024	49,635	74,687	124,322
2025-2029	234,550	37,374	271,924	2025-2029	64,210	60,115	124,325
2030-2031	43,895	1,924	45,819	2030-2034	83,515	40,815	124,330
Total	<u>\$ 818,750</u>	<u>\$ 308,504</u>	<u>\$ 1,127,254</u>	2035-2039	85,005	16,551	101,556
				2040-2042	15,760	485	16,245
				Total	<u>\$ 336,597</u>	<u>\$ 278,509</u>	<u>\$ 615,106</u>

c. Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations for the component units (expressed in thousands):

	Balance July 1, 2013 as restated	Increases	Decreases	Balance June 30, 2014	Due Within One Year	Due Thereafter
Water Infrastructure Finance Authority:						
Long-term Debt:						
Revenue bonds	\$ 863,900	\$ -	\$ (45,150)	\$ 818,750	\$ 46,495	\$ 772,255
Revenue bond premium	81,071	-	(7,074)	73,997	-	73,997
Total Long-term Debt	<u>944,971</u>	<u>-</u>	<u>(52,224)</u>	<u>892,747</u>	<u>46,495</u>	<u>846,252</u>
Other Long-term Liabilities:						
Compensated absences	93	96	(85)	104	104	-
Total Other Long-term Liabilities	<u>93</u>	<u>96</u>	<u>(85)</u>	<u>104</u>	<u>104</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 945,064</u>	<u>\$ 96</u>	<u>\$ (52,309)</u>	<u>\$ 892,851</u>	<u>\$ 46,599</u>	<u>\$ 846,252</u>
University of Arizona Health Network and Subsidiaries:						
Long-term Debt:						
Revenue bonds	\$ 310,128	\$ 32,808	\$ (6,339)	\$ 336,597	\$ 6,947	\$ 329,650
Revenue bond premium and discount	(2,201)	155	(129)	(2,175)	-	(2,175)
Notes payable	9,737	-	(873)	8,864	534	8,330
Capital leases	640	-	(640)	-	-	-
Line of credit	19,734	20,000	(19,734)	20,000	20,000	-
Total Long-term Debt	<u>338,038</u>	<u>52,963</u>	<u>(27,715)</u>	<u>363,286</u>	<u>27,481</u>	<u>335,805</u>
Other Long-term Liabilities:						
Compensated absences	27,916	33,862	(27,916)	33,862	30,255	3,607
Other	281	1,487	(1,120)	648	-	648
Total Other Long-term Liabilities	<u>28,197</u>	<u>35,349</u>	<u>(29,036)</u>	<u>34,510</u>	<u>30,255</u>	<u>4,255</u>
Total Long-term Obligations	<u>\$ 366,235</u>	<u>\$ 88,312</u>	<u>\$ (56,751)</u>	<u>\$ 397,796</u>	<u>\$ 57,736</u>	<u>\$ 340,060</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

2. Universities-Affiliated Component Units

A summary of bonds payable as of June 30, 2014 include the following (expressed in thousands):

	Final Maturity	Amount
ASU Foundation:		
Series 2014A Revenue Refunding Bonds	2034	\$ 39,050
Series 2014B Revenue Refunding Bonds	2016	4,360
Series 2004A Variable Rate Revenue Bonds	2034	22,420
Series 2004B Variable Rate Revenue Bonds	2022	7,460
ACFFC:		
Series 2011 Tax-Exempt Revenue Refunding Bonds	2018	13,475
Series 2009 Revenue Bonds	2024	34,475
Series 2009A Lease Revenue Refunding Bonds	2034	22,955
Series 2009B Lease Revenue Refunding Bonds	2022	8,310
Series 2008 Revenue Bonds	2028	14,010
Series 2008 Revenue Refunding Bonds	2039	142,125
Series 2008 Variable Rate Demand Revenue Refunding Bonds	2030	37,095
Series 2005 Tax-Exempt Refunding Bonds	2035	15,580
Deferred Cost of Refunding		(299)
Unamortized Bond Premium		1,359
Downtown Phoenix Student Housing:		
Series 2007A&C Revenue Bonds	2042	118,140
Series 2007D Tax-Exempt Revenue Bonds	2042	22,700
Unamortized Bond Discount		(1,057)

Scheduled future maturities of Universities-affiliated component units' bonds payable are as follows (expressed in thousands):

Fiscal Year	ASU Foundation	ACFFC	Downtown Phoenix Student Housing
2015	\$ 2,600	\$ 9,300	\$ 610
2016	2,195	9,865	810
2017	2,275	10,555	1,025
2018	2,365	11,275	1,245
2019	2,480	12,040	1,480
Thereafter	61,375	236,050	134,613
Total	\$ 73,290	\$ 289,085	\$ 139,783

H. CONDUIT DEBT

The purpose of the GADA is to provide cost-effective capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA's bond structure allows it to lower borrowing costs for Arizona's communities by issuing and selling bonds tax-exempt and by sharing financing costs among several borrowers. Principal and interest are payable semi-annually. Loans are secured by the Pledged Collateral Reserve Fund, a requirement that is calculated and deposited by the GADA from the GADA Fund, which is held by the State Treasurer. Some borrowers also have separate, additional reserve funds, which are held by the Trustee. An intercept mechanism of state-shared revenues for political subdivisions enhances the security of the GADA bonds.

In previous years, the State appropriated a total of \$20.0 million to the GADA for the express purpose of securing bonds issued by the GADA. Although issued in the name of the GADA, loans funded through the GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to A.R.S. § 41-2259, the GADA's bonds

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

do not constitute nor create a general, special, or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net position of \$12.0 million in the Pledged Collateral Reserve Fund. At June 30, 2014, the total outstanding face value of all bonds issued by the GADA was \$408.4 million.

I. SUBSEQUENT EVENTS

In June 2014, the UAHN and the U of A executed a Principles of Agreement document with Banner Health, to create a statewide health care organization and a comprehensive new model for academic medicine. This merger is expected to close on February 27, 2015.

In December 2014, the WIFA issued \$342.6 million of Water Quality Revenue Refunding Bonds, Series 2014A (2014A Bonds) to refund portions of the WIFA's outstanding bonds and to pay costs of issuance. The 2014A Bonds include serial bonds with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2016 to 2031. The 2014A Bonds are subject to optional redemption prior to their stated maturity dates pursuant to the debt documents. The bonds being refunded will be paid by investments held in an irrevocable trust.

REQUIRED
SUPPLEMENTARY
INFORMATION

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMINISTRATION, ARIZONA DEPARTMENT OF			
500 BED MAXIMUM SECURITY FY12-13	\$ 18,942,751	\$ 18,942,751	\$ 14,904,399
500 BED MAXIMUM SECURITY FY13-14	30,000,000	30,000,000	16,607,301
ADMINISTRATIVE ADJUSTMENTS	-	994,697	994,697
ADULT INFORMATION MANAGEMENT SYSTEM	8,000,000	8,000,000	-
AFIS REPLACEMENT ERP	28,638,000	28,638,000	15,999,187
ANNUAL REV PERSONNEL DIV FUND ARS41-764C	-	2,037,041	2,037,041
AUTOMATION AND INFORMATION TECH PROJECTS	11,500,000	11,500,000	5,523,643
AUTOMATION PROJECTS GF	18,400,000	18,400,000	18,400,000
BUILDING RENEWAL FY09-10	-	1,321	-
BUILDING RENEWAL FY10-11	15,568	15,568	200
BUILDING RENEWAL FY11-12	1,142,917	1,142,917	1,129,487
BUILDING RENEWAL FY12-13	8,657,616	8,657,616	5,057,944
BUILDING RENEWAL FY13-14	9,000,000	9,000,000	1,066,172
CAPITOL MALL FIRE SYSTEM REPLACE FY08-09	6,764	6,764	-
CAPITOL MALL SECURITY SYSTEM	2,000,000	2,000,000	231,339
CASH TRANSFER BETWEEN FUNDS	2,400	2,400	2,400
CASH TRANSFER TO AUTOMATION PROJECTS FUND	11,530,700	11,530,700	11,530,700
COP DEBT SERVICE 2009 3RD SS CH 6 SEC 32	60,107,800	60,107,800	60,107,800
COP DEBT SERVICE 2009 6TH SS CH 4 SEC 2A	24,012,000	24,012,000	24,012,000
CORRECTIONS BUILDING RENEWAL FY11-12	1,630,500	2,066,906	-
COUNTY ATTORNEYS IMMIGRATION ENFORCEMENT FY12-13	60,981	60,981	-
COUNTY ATTORNEYS IMMIGRATION ENFORCEMENT FY13-14	1,213,200	1,213,200	973,719
COUNTY SERVICES DISTRIBUTION	7,150,500	7,150,500	7,150,500
DATA SECURITY AND ENCRYPTION DOR	4,900,000	4,900,000	253,489
E LICENSING DEQ	5,000,000	5,000,000	4,483,524
HB1464 PERSONNEL REFORM FY98-99	273,045	45	-
IMPLEMENT UPGRADE TAXPAYER ACCTG SYSTEM	1,700,000	1,700,000	1,071,329
OPERATING LUMP SUM APPROPRIATION	39,986,900	40,853,400	35,467,006
OPERATING LUMP SUM APPROPRIATION - ST BD	212,500	231,000	228,743
PUBLIC SAFETY COMMUNICATIONS	549,700	549,700	261,243
RELIEF BILL CASH TRANSFER FY14	-	1,430	1,430
RELOCATION FY99-00	4,520	4,520	-
RELOCATION FY00-01	55,301	55,301	-
RELOCATION FY01-02	59,026	59,026	-
RELOCATION FY02-03	58,149	58,149	-
STATE SURPLUS PROPERTY SALES PROCEEDS	1,260,000	1,835,000	1,734,925
STATEWIDE INFO SECURITY AND PRIVACY OFC	857,800	857,800	784,044
STUDENT LONGITUDINAL DATA SYSTEM	7,000,000	7,000,000	7,000,000
UTILITIES	8,275,600	8,275,600	7,554,795
WHITE MOUNTAIN APACHE TRIBES WATER RIGHT	2,000,000	2,000,000	-
ADMINISTRATIVE HEARINGS, OFFICE OF			
OPERATING LUMP SUM APPROPRIATION	821,400	874,500	874,500
AGRICULTURE, ARIZONA DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	12,443	12,443
AGRICULTURAL EMPLOYMENT RELATIONS BOARD	23,300	23,300	23,300
AGRICULTURE CONSULTING AND TRAINING PARI-MUTUEL	128,500	128,500	128,500
ANIMAL DAMAGE CONTROL	65,000	65,000	47,814
OFFSITE NUCLEAR EMERGENCY RESPONSE PLANS	-	198,434	198,434
OPERATING LUMP SUM APPROPRIATION	7,595,000	7,881,800	7,878,499
RED IMPORTED FIRE ANT	23,200	23,200	23,200
AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM			
ACA ADULT EXPANSION	-	65,931,900	40,385,589
ADMINISTRATIVE ADJUSTMENTS	-	160,641,023	160,641,023
ALTCS SERVICES	1,220,006,600	1,220,006,600	1,192,101,604
CHILDREN'S REHABILITATIVE SERVICES	111,736,400	159,150,000	156,367,982
CHIP - SERVICES	12,081,300	12,081,300	9,469,104
DES ELIGIBILITY	53,799,300	120,774,100	88,533,292
DISPROPORTIONATE SHARE PAYMENTS	13,487,100	13,487,100	4,202,300

The Notes to Required Supplementary Information are an integral part of this schedule.

(continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DSH - VOLUNTARY	28,457,100	43,318,000	25,806,951
GRADUATE MEDICAL EDUCATION	160,184,900	186,490,100	159,376,439
KIDSCARE II FED	20,924,000	37,772,000	36,263,719
KIDSCARE II LOCAL GOVT MATCH	5,901,700	10,450,700	9,835,449
OPERATING LUMP SUM APPROPRIATION	75,747,800	91,696,600	82,821,585
PROP 204 AHCCCS ADMINISTRATION	6,635,800	8,831,800	8,080,305
PROP 204 DES ELIGIBILITY	37,793,600	26,393,100	24,106,805
PROPOSITION 204 SERVICES	1,029,647,500	1,331,828,200	1,272,319,321
RURAL HOSPITAL REIMBURSEMENT	13,858,100	13,858,100	13,008,100
SAFETY NET CARE POOL	166,000,000	487,953,400	476,367,179
TRADITIONAL MEDICAID SERVICES	3,593,266,500	3,446,490,100	3,152,899,036
ARIZONA STATE UNIVERSITY			
BIOMEDICAL INFORMATICS	1,955,200	1,955,200	1,955,200
DOWNTOWN PHOENIX CAMPUS	15,661,000	22,445,000	22,445,000
OPERATING LUMP SUM APPROPRIATION-EAST	12,511,400	18,289,400	18,289,400
OPERATING LUMP SUM APPROPRIATION-MAIN	143,370,400	211,828,600	211,828,600
OPERATING LUMP SUM APPROPRIATION-WEST	23,224,600	33,328,100	33,328,100
PARITY FUNDING POLY	3,497,800	3,497,800	3,497,800
PARITY FUNDING TEMPE	20,444,400	20,444,400	20,444,400
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT	-	13,555,000	13,553,615
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT-POLY	-	917,000	917,000
ATTORNEY GENERAL - DEPARTMENT OF LAW			
ADMINISTRATIVE ADJUSTMENTS	-	26,230	26,230
CAPITAL POSTCONVICTION PROSECUTION	500,000	500,000	488,099
LEGAL ARIZONA WORKERS ACT FY07-08	100,000	100,000	-
MILITARY INSTALLATION/PLANNING FY11-12	206	206	-
MILITARY INSTALLATION/PLANNING FY12-13	316	316	-
MILITARY INSTALLATION/PLANNING FY13-14	-	85,800	85,800
OPERATING LUMP SUM APPROPRIATION	36,730,400	37,814,200	36,909,181
STATE GRAND JURY	177,500	177,500	177,344
AUDITOR GENERAL			
OPERATING LUMP SUM APPROPRIATION FY10-11	425,540	425,540	-
OPERATING LUMP SUM APPROPRIATION FY11-12	1,821,473	1,821,473	141,934
OPERATING LUMP SUM APPROPRIATION FY12-13	3,597,444	3,597,444	1,727,043
OPERATING LUMP SUM APPROPRIATION FY13-14	17,240,100	17,989,700	15,264,933
CHARTER SCHOOLS, STATE BOARD FOR			
ADMINISTRATIVE ADJUSTMENTS	-	5,185	5,185
OPERATING LUMP SUM APPROPRIATION	748,100	822,400	787,798
COMMISSION ON UNIFORM STATE LAWS			
DUES AND TRAVEL EXPENSES	75,000	75,000	75,000
CORPORATION COMMISSION			
OPERATING LUMP SUM APPROPRIATION	639,350	659,800	560,407
RAILROAD WARNING SYSTEMS FY00-01	47,510	47,510	-
CORRECTIONS, STATE DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	852,713	852,713
ASPC YUMA CHEYENNE REPAIRS	8,000,000	8,000,000	791,475
BUILDING RENEWAL FUND EXPENDITURES FY11-12	490,044	490,044	490,044
BUILDING RENEWAL FUND EXPENDITURES FY12-13	2,248,495	2,248,495	1,574,510
BUILDING RENEWAL FUND EXPENDITURES FY13-14	5,000,000	5,000,000	888,673
CASH TRANSFER TO AUTOMATION PROJECTS FUND	28,800	28,800	28,800
INMATE HEALTH CARE CONTRACTED SERVICES	115,274,900	116,274,900	116,239,900
OPERATING LUMP SUM APPROPRIATION	745,641,700	751,586,100	749,744,286
PRIVATE PRISON PER DIEM	106,884,100	106,884,100	106,843,959
COURT OF APPEALS DIVISION I			
ADMINISTRATIVE ADJUSTMENTS	-	15,689	15,689
OPERATING LUMP SUM APPROPRIATION - DIVISION I	9,640,000	9,896,900	9,875,070
COURT OF APPEALS DIVISION II			
OPERATING LUMP SUM APPROPRIATION - DIVISION II	4,227,600	4,289,800	4,289,797

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DEAF AND BLIND, ARIZONA SCHOOLS FOR THE			
ADMINISTRATION STATEWIDE	3,591,400	4,926,480	4,682,272
ADMINISTRATIVE ADJUSTMENTS	-	1,248,795	1,248,795
PHOENIX DAY SCHOOL FOR THE DEAF	3,503,700	3,648,142	3,316,447
PRESCHOOL AND OUTREACH PROGRAMS	1,845,900	1,978,776	1,900,137
REGIONAL COOPERATIVES	798,600	832,400	832,400
SCHOOL BUS REPLACEMENT	738,000	738,000	737,915
TUCSON CAMPUS	10,108,500	9,671,503	8,700,591
TUCSON CAMPUS DORM RENOVATIONS	1,000,000	1,000,000	1,000,000
ECONOMIC SECURITY, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	128,840,142	128,840,142
ADOPTION SERVICES	177,554,600	177,554,600	76,960,934
ADULT SERVICES	6,924,100	7,924,100	7,540,474
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	215,622,000	231,026,100	194,308,944
ATTORNEY GENERAL LEGAL SERVICES	10,830,500	10,867,300	9,006,503
AZ TRAINING PROGRAM COOLIDGE-TITLE XIX	20,327,100	22,302,000	19,486,974
CASE MANAGEMENT-STATE ONLY	3,846,000	3,926,600	3,798,089
CASE MANAGEMENT-TITLE XIX	49,143,800	61,900,800	54,806,949
CHILDREN SUPPORT SERVICES	143,293,700	159,852,200	84,614,748
COMMUNITY AND EMERGENCY SERVICES	3,724,000	3,724,000	3,018,028
CONTINGENCY FUNDING	10,500,000	10,500,000	10,500,000
COORDINATED HOMELESS PROGRAM	2,522,600	2,522,600	2,121,230
COORDINATED HUNGER	1,754,600	1,754,600	1,164,095
COUNTY PARTICIPATION	8,600,200	8,600,200	5,347,854
CPS EMERGENCY AND RESIDENTIAL PLACEMENT	84,219,300	81,869,300	37,394,335
DAY CARE SUBSIDY	130,396,600	126,396,600	110,191,082
DCYF ATTORNEY GENERAL LEGAL SERVICES	20,068,700	20,446,700	12,684,400
DCYF OPERATING LUMP SUM	165,648,500	179,890,800	121,874,487
DOMESTIC VIOLENCE PREVENTION	9,903,700	9,903,700	8,637,695
FOSTER CARE PLACEMENT	50,351,200	50,351,200	25,651,430
GRANDPARENT STIPENDS	1,000,000	1,000,000	339,978
HOME AND COMMUNITY BASED SERVICES-STATE ONLY	33,443,400	19,343,200	12,568,399
HOME AND COMMUNITY BASED SERVICES-TITLE XIX	982,631,300	964,697,500	887,592,888
INDEPENDENT LIVING MAINTENANCE	3,469,300	2,969,300	2,219,300
INDEPENDENT LIVING REHABILITATION SERVICES	166,000	116,000	116,000
INSTITUTIONAL SERVICES-TITLE XIX	25,712,300	28,795,500	24,688,694
INTENSIVE FAMILY SERVICES	5,000,000	5,000,000	5,000,000
JOBS	11,894,700	11,924,700	9,865,098
MEDICAL CLAWBACK	3,072,000	3,072,000	3,072,000
MEDICAL SERVICES-TITLE XIX	188,890,200	176,460,500	169,053,244
PERMANENT GUARDIAN SUBSIDY	11,215,300	11,715,300	10,330,943
REHABILITATION SERVICES	3,594,400	2,594,400	2,594,400
SPECIAL SUPPLEMENTAL APPROPRIATION	28,500,000	63,500,000	63,500,000
STATE FUNDED LONG-TERM CARE SERVICES	26,528,100	28,328,100	25,012,206
TANF CASH BENEFITS	44,999,400	40,499,400	40,467,478
TRIBAL PASS-THRU FUNDING	4,680,300	4,680,300	4,680,300
WORKFORCE INVESTMENT ACT SERVICES	51,654,600	51,654,600	39,130,167
EDUCATION, DEPARTMENT OF			
ACHIEVEMENT TESTING	3,218,400	3,223,600	3,223,600
ADDITIONAL STATE AID TO SCHOOLS	339,269,300	339,269,300	336,776,400
ADMINISTRATIVE ADJUSTMENTS	-	15,591,276	15,591,276
ADULT EDUCATION	4,500,000	4,500,000	4,500,000
ARIZONA STRUCTURED ENGLISH IMMERSION	8,791,400	8,791,400	8,791,400
BASIC STATE AID DEFERRED PAYMENT FY13	952,627,700	952,627,700	929,332,067
BASIC STATE AID ENTITLEMENT	2,228,951,900	2,275,951,900	2,275,464,511
CASH TRANSFER TO AUTOMATION PROJECTS FUND	1,998,242	1,998,242	1,982,176
EMPOWERMENT SCHOLARSHIP ACCOUNT	137,843	137,843	36,857
ENGLISH LANGUAGE ACQUISITION FY06-07	2,827	2,827	-
ENGLISH LEARNER ADMINISTRATION	3,967,700	4,016,200	4,016,200

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA
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GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ENGLISH LEARNER TEACHER FY04-05	477,154	477,154	-
K-3 READING	40,000,000	40,007,600	40,007,600
OPERATING LUMP SUM APPROPRIATION-ADMINISTRATION	8,163,800	8,461,000	8,459,599
OPERATING LUMP SUM APPROPRIATION-STATE BOARD	1,213,600	1,234,700	1,234,700
OTHER STATE AID TO DISTRICTS FY07	983,900	983,900	56,440
PERFORMANCE INCENTIVE FUND DEPOSIT	2,400,000	2,400,000	2,400,000
READING FIRST INITIATIVE FY07-08	97,003	97,003	97,003
SCHOOL SAFETY PROGRAM	3,646,400	3,646,400	2,972,278
SPECIAL EDUCATION FUND	33,242,100	33,242,100	33,242,100
STATE BLOCK GRANT FOR VOCATIONAL EDUCATION	11,494,500	11,575,400	11,575,400
EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF			
ADMINISTRATION	1,706,000	1,822,900	1,814,754
COCONINO COUNTY CAMPBELL FLOOD FY11-12	25,358	25,358	25,358
DISASTER DECLARATION	-	4,000,000	4,000,000
EMERGENCY MANAGEMENT	709,900	729,900	729,329
EUZ701 SEARCH AND RESCUE FY11-12	7,220	7,220	7,219
EUZ701 SEARCH AND RESCUE FY12-13	4,022	4,022	4,022
FEBRUARY 2005 WINTER STORMS FY07-08	92,475	92,475	62,379
FEBRUARY 2005 WINTER STORMS FY10-11	34,039	34,039	1,067
GREENLEE COUNTY FLOODING	58,451	58,451	58,450
HAZARD MATERIALS CONTINGENCY FY03-04	3,539	3,539	3,539
HAZARD MATERIALS CONTINGENCY FY07-08	48,358	48,358	46,461
JANUARY 2010 WINTER STORM FY09-10	3,452	3,452	3,452
MILITARY AFFAIRS	1,199,500	1,194,800	1,183,808
MILITARY AFFAIRS COMMISSION FY10-11	39,649	39,649	-
MILITARY AFFAIRS COMMISSION FY11-12	23,218	23,218	-
MILITARY AFFAIRS COMMISSION FY12-13	38,605	38,605	-
MILITARY AFFAIRS COMMISSION FY13-14	-	90,000	90,000
NORTHERN ARIZONA WINTER STORM FY10-11	261,084	261,084	8,207
NORTHERN GREENLEE COUNTY FLOODING FY11-12	24,752	24,752	24,752
NORTHERN GREENLEE COUNTY FLOODING FY12-13	100,000	100,000	100,000
NUCLEAR EMERGENCY MANAGEMENT FUND-BUCKEYE GF TRF	-	69,909	69,909
NUCLEAR EMERGENCY MANAGEMENT FUND-GF TSF	-	524,008	524,008
NUCLEAR EMERGENCY MANAGEMENT FUND-MARICOPA-GF TRF	-	665,916	665,916
POST-GLADIATOR FIRE FLOODING	36,243	36,243	36,242
SCHULTZ FIRE POST-FIRE FLOOD FY10-11	1	1	(69,460)
SERVICE CONTRACTS FY12-13	642,098	642,098	407,744
SERVICE CONTRACTS FY13-14	1,215,000	1,215,000	578,495
SUMMER 2006 MONSOONS AND FLOODING FY07-08	3,539	3,539	3,539
SUMMER 2006 MONSOONS AND FLOODING FY11-12	166,035	166,035	6,271
ENVIRONMENTAL QUALITY, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	59,555	59,555
CASH TRANSFER TO AUTOMATION PROJECTS FUND	93,700	93,700	93,700
OPERATING LUMP SUM APPROPRIATION	13,008,700	13,308,500	2,958,305
EQUAL OPPORTUNITY, GOVERNOR'S OFFICE OF			
ADMINISTRATIVE ADJUSTMENTS	-	41	41
OPERATING LUMP SUM APPROPRIATION	187,100	188,500	188,423
EQUALIZATION, STATE BOARD OF			
ADMINISTRATIVE ADJUSTMENTS	-	742	742
OPERATING LUMP SUM APPROPRIATION	629,500	639,500	520,422
EXECUTIVE CLEMENCY, BOARD OF			
OPERATING LUMP SUM APPROPRIATION	821,500	838,400	824,733
FINANCIAL INSTITUTIONS, DEPARTMENT OF			
OPERATING LUMP SUM APPROPRIATION	2,912,800	3,019,100	3,011,159
FIRE, BUILDING AND LIFE SAFETY, DEPARTMENT OF			
OPERATING LUMP SUM APPROPRIATION	1,969,100	2,026,000	1,945,413
FORESTER, OFFICE OF THE STATE			
ADMINISTRATIVE ADJUSTMENTS	-	169,532	169,532
ENVIRONMENTAL COUNTY GRANTS	175,000	175,000	175,000

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
FIRE SUPPRESSION SLI	1,000,000	1,000,000	1,000,000
GENERAL FUND TRANSFER TO FIRE SUPPRESSION	-	3,000,000	3,000,000
INMATE FIRE CREWS	695,700	695,700	669,899
OPERATING LUMP SUM APPROPRIATION	2,291,700	2,365,700	2,334,670
RESOURCE MANAGEMENT PLAN GRANTS	100,000	100,000	-
GENERAL ACCOUNTING OFFICE			
CAPITAL OUTLAY STATE AID COCHISE	450,400	450,400	450,400
CAPITAL OUTLAY STATE AID COCONINO	147,500	147,500	147,500
CAPITAL OUTLAY STATE AID GILA	50,000	50,000	50,000
CAPITAL OUTLAY STATE AID GRAHAM	218,100	218,100	218,100
CAPITAL OUTLAY STATE AID MOHAVE	211,700	211,700	211,700
CAPITAL OUTLAY STATE AID NAVAJO	122,600	122,600	122,600
CAPITAL OUTLAY STATE AID PINAL	257,700	257,700	257,700
CAPITAL OUTLAY STATE AID SANTA CRUZ	16,700	16,700	16,700
CAPITAL OUTLAY STATE AID YAVAPAI	248,600	248,600	248,600
CAPITAL OUTLAY STATE AID YUMA LA PAZ	276,700	276,700	276,700
EQUALIZATION AID - COCHISE	4,712,400	4,712,400	4,712,400
EQUALIZATION AID - GRAHAM	16,075,100	16,075,100	16,075,100
EQUALIZATION AID - NAVAJO	5,514,200	5,514,200	5,514,200
HR PRORATA ADJUSTMENTS	1,605,400	71,300	-
LEASE PURCHASE ADJUSTMENTS	67,800	-	-
NAMED CLAIMANTS BILL	-	193,632	193,632
OPERATING STATE AID - COCHISE	5,710,100	5,710,100	5,710,100
OPERATING STATE AID - COCONINO	1,840,400	1,840,400	1,840,400
OPERATING STATE AID - GILA	370,700	370,700	370,700
OPERATING STATE AID - GRAHAM	2,345,700	2,345,700	2,345,700
OPERATING STATE AID - MARICOPA	7,913,300	7,913,300	7,913,300
OPERATING STATE AID - MOHAVE	1,659,400	1,659,400	1,659,400
OPERATING STATE AID - NAVAJO	1,646,600	1,646,600	1,646,600
OPERATING STATE AID - PIMA	7,136,600	7,136,600	7,136,600
OPERATING STATE AID - PINAL	2,135,000	2,135,000	2,135,000
OPERATING STATE AID - SANTA CRUZ	58,700	58,700	58,700
OPERATING STATE AID - YAVAPAI	893,900	893,900	893,900
OPERATING STATE AID - YUMA LA PAZ	2,754,400	2,754,400	2,754,400
RETENTION PAYMENT ADJUSTMENTS	23,500,000	119,200	-
RISK MANAGEMENT ADJUSTMENTS	327,100	5,400	-
RURAL COUNTY REIMBURSEMENT SUBSIDY	848,800	848,800	848,800
WOOLSEY FLOOD DISTRICT	-	117,597	117,597
GEOLOGICAL SURVEY, ARIZONA			
OPERATING LUMP SUM APPROPRIATION	853,600	941,400	941,400
GOVERNOR, OFFICE OF THE			
OPERATING LUMP SUM APPROPRIATION FY10-11	110,493	110,493	110,493
OPERATING LUMP SUM APPROPRIATION FY11-12	747,616	747,616	747,616
OPERATING LUMP SUM APPROPRIATION FY12-13	3,137,461	3,137,461	1,071,345
OPERATING LUMP SUM APPROPRIATION FY13-14	6,586,600	6,926,000	4,673,019
OPERATING LUMP SUM APPROPRIATION-OSPB FY10-11	1,251,613	1,251,613	281,839
OPERATING LUMP SUM APPROPRIATION-OSPB FY11-12	124,535	124,535	-
OPERATING LUMP SUM APPROPRIATION-OSPB FY12-13	38,412	38,412	22,418
OPERATING LUMP SUM APPROPRIATION-OSPB FY13-14	1,871,700	1,993,200	1,919,976
HEALTH SERVICES, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	934,727	934,727
ADULT CYSTIC FIBROSIS	105,200	105,200	78,900
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	115,612,200	117,586,700	102,362,761
AIDS REPORTING AND SURVEILLANCE	1,000,000	1,000,000	902,745
ALZHEIMER DISEASE RESEARCH	125,000	125,000	125,000
ASH CORRECTIVE ACTION PLAN SUPPLEMENTAL FY04-05	398,060	398,060	-
BREAST AND CERVICAL CANCER SCREENING	1,346,700	1,346,700	844,167
CASH TRANSFER TO AUTOMATION PROJECTS FUND	64,000	64,000	64,000
COMMUNITY PLACEMENT TREATMENT	1,130,700	1,130,700	-

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA
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GENERAL FUND
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
COUNTY TUBERCULOSIS PROVIDER CARE AND CONTROL	590,700	590,700	522,297
CRISIS SERVICES	14,141,100	14,141,100	14,132,767
HIGH RISK PERINATAL SERVICES	2,093,400	2,093,400	1,487,870
MEDICAID BEHAVIORAL HEALTH - PROP 204	105,251,500	255,251,500	84,573,800
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	843,287,300	693,287,300	206,465,900
MEDICAID BEHAVIORAL HEALTH COMPREHENSIVE AND DENTAL	140,896,200	140,896,200	46,684,300
MEDICAID INSURANCE PREMIUM PAYMENTS	22,487,100	22,487,100	7,450,800
MEDICARE CLAWBACK PAYMENTS	14,925,100	14,925,100	14,925,100
MENTAL HEALTH FIRST AID	250,000	250,000	167,214
NON MEDICAID SERIOUSLY MENTAL ILL SVS	78,846,900	78,846,900	76,261,062
NON RENAL DISEASE MANAGEMENT	198,000	198,000	44,322
ONE TIME ELECTRONIC MED RECORDS START UP	3,850,000	3,850,000	-
POISON CONTROL CENTER FUNDING	990,000	990,000	742,500
PROP 204 ADMINISTRATION TITLE XIX MATCH	6,446,700	6,446,700	2,131,400
REG HA DISPENSERS-AUDIOL PATHOL FY03-04	62,243	62,243	-
RURAL HOSPITAL EMERGENCY AND TRAUMA SVS	300,000	300,000	300,000
SUPPORTED HOUSING	5,324,800	5,324,800	5,249,535
TANF PERINATAL SERVICES FY99-00	47,270	47,270	-
TITLE XIX SUPPLEMENTAL	-	167,439,300	28,636,191
HISTORICAL SOCIETY OF ARIZONA, PRESCOTT			
ADMINISTRATIVE ADJUSTMENTS	-	42,567	42,567
OPERATING LUMP SUM APPROPRIATION	804,200	826,000	751,824
HISTORICAL SOCIETY, ARIZONA			
ARIZONA EXPERIENCE MUSEUM	410,500	428,300	428,300
FIELD SERVICES AND GRANTS	65,100	66,000	66,000
OPERATING LUMP SUM APPROPRIATION	2,033,800	2,116,500	2,116,500
PAPAGO PARK MUSEUM	532,700	544,200	544,200
HOUSE OF REPRESENTATIVES			
OPERATING LUMP SUM APPROPRIATION FY09-10	2,778,308	2,778,308	124,243
OPERATING LUMP SUM APPROPRIATION FY10-11	1,353,951	1,353,951	-
OPERATING LUMP SUM APPROPRIATION FY11-12	1,087,704	1,087,704	-
OPERATING LUMP SUM APPROPRIATION FY12-13	1,285,746	1,285,746	-
OPERATING LUMP SUM APPROPRIATION FY13-14	13,067,100	13,422,200	12,376,524
INDEPENDENT REDISTRICTING COMMISSION			
OPERATING EXPENDITURES	-	1,462,701	279,173
OPERATING LUMP SUM APPROPRIATION FY12-13	60	60	60
OPERATING LUMP SUM APPROPRIATION FY13-14	1,100,000	1,115,100	1,115,100
INDIAN AFFAIRS, ARIZONA COMMISSION OF			
ADMINISTRATIVE ADJUSTMENTS	-	91	91
OPERATING LUMP SUM APPROPRIATION	53,700	56,900	53,992
INSURANCE, DEPARTMENT OF			
OPERATING LUMP SUM APPROPRIATION	5,169,600	5,364,900	5,334,710
JOINT LEGISLATIVE BUDGET COMMITTEE			
OPERATING LUMP SUM APPROPRIATION FY11-12	676,598	676,598	676,598
OPERATING LUMP SUM APPROPRIATION FY12-13	2,455,474	2,455,474	1,348,165
OPERATING LUMP SUM APPROPRIATION FY13-14	2,418,800	2,492,000	905
JUVENILE CORRECTIONS, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	66,796	66,796
CASH TRANSFER TO AUTOMATION PROJECTS FUND	16,300	16,300	16,300
OPERATING LUMP SUM APPROPRIATION	46,084,400	46,118,900	41,683,683
LAND DEPARTMENT, STATE			
CAP USER FEES	513,300	641,600	641,520
CASH TRANSFER TO AUTOMATION PROJECTS FUND	3,600	3,600	3,600
DUE DILIGENCE FUND	500,000	500,000	7,339
NATURAL RESOURCE CONSERVATION DISTRICTS	390,000	390,000	377,000
OPERATING LUMP SUM APPROPRIATION	11,134,800	11,442,100	11,407,384
LEGISLATIVE COUNCIL			
OMBUDSMAN-CITIZENS AID OFFICE FY09-10	17	17	-
OMBUDSMAN-CITIZENS AID OFFICE FY10-11	6,241	6,241	6,188

The Notes to Required Supplementary Information are an integral part of this schedule.

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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OMBUDSMAN-CITIZENS AID OFFICE FY11-12	61,487	61,487	61,428
OMBUDSMAN-CITIZENS AID OFFICE FY12-13	41,262	41,262	14,358
OMBUDSMAN-CITIZENS AID OFFICE FY13-14	608,000	629,034	522,041
OPERATING LUMP SUM APPROPRIATION FY09-10	1	1	-
OPERATING LUMP SUM APPROPRIATION FY11-12	28	28	21
OPERATING LUMP SUM APPROPRIATION FY12-13	2,358,644	2,358,644	1,927,702
OPERATING LUMP SUM APPROPRIATION FY13-14	7,276,700	7,417,466	3,825,327
LIBRARY, ARCHIVES, AND PUBLIC RECORDS, ARIZONA STATE			
GRANTS-IN-AID FY09-10	31,309	31,309	31,309
LIQUOR, LICENSES, AND CONTROL, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	3,115	3,115
CASH TRANSFER TO AUTOMATION PROJECTS FUND	20,500	20,500	20,500
IMPROVEMENT OF DATA PROCESSING SYSTEM FY06-07	98,265	98,265	18,539
OPERATING LUMP SUM APPROPRIATION	2,850,400	2,932,300	2,932,179
MEDICAL STUDENT LOANS, BOARD OF			
MEDICAL STUDENT FINANCIAL ASSISTANCE FY06-07	346,555	346,555	-
MEDICAL STUDENT FINANCIAL ASSISTANCE FY08-09	309,800	309,800	-
MINE INSPECTOR, STATE			
ABANDONED MINES SAFETY FUND DEPOSIT	189,000	194,700	175,978
ADMINISTRATIVE ADJUSTMENTS	-	4,394	4,394
OPERATING LUMP SUM APPROPRIATION	994,600	1,028,600	1,016,563
NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA			
ADMINISTRATIVE ADJUSTMENTS	-	701	701
LEGAL EXPENSES SUPPLEMENTAL	-	150,000	82,334
OPERATING LUMP SUM APPROPRIATION	126,200	129,200	124,127
NORTHERN ARIZONA UNIVERSITY			
NAU - YUMA	3,066,700	3,066,700	3,066,700
OPERATING LUMP SUM APPROPRIATION	60,887,700	91,382,500	91,382,500
PARITY FUNDING	6,605,200	6,605,200	6,605,200
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT	-	5,900,000	5,900,000
TEACHER TRAINING	2,290,600	2,290,600	2,290,600
NURSING, STATE BOARD OF			
GF SUPPLEMENTAL APPROPRIATION FOR CNA PROGRAM	-	150,000	150,000
OCCUPATIONAL SAFETY AND HEALTH REVIEW BOARD			
OPERATING LUMP SUM APPROPRIATION	13,989	13,989	2,292
PARKS BOARD, ARIZONA STATE			
ADMINISTRATIVE ADJUSTMENTS	-	200,790	200,790
CASH TRANSFER TO AUTOMATION PROJECTS FUND	91,100	91,100	91,100
GF C/O YARNELL HILL MEMORIAL SITE ACQUIS	-	500,000	-
KARTCHNER CAVERNS STATE PARK	2,197,700	2,228,700	2,098,862
OPERATING LUMP SUM APPROPRIATION	10,451,800	10,592,400	10,099,880
SPRF BSF STATE PARKS CAPITAL IMPROVEMENT	-	1,000,000	190,144
PERSONNEL BOARD			
ADMINISTRATIVE ADJUSTMENTS	-	281	281
CASH TRANSFER TO AUTOMATION PROJECTS FUND	2,600	2,600	2,600
OPERATING LUMP SUM APPROPRIATION	364,500	374,900	311,933
PIONEERS' HOME, ARIZONA			
ADMINISTRATIVE ADJUSTMENTS	-	2,296	2,296
OPERATING LUMP SUM APPROPRIATION	1,604,800	1,602,800	1,602,799
POSTSECONDARY EDUCATION, COMMISSION FOR			
LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP	1,220,800	1,220,800	1,220,800
MATH AND SCIENCE TEACHER INITIATIVE	176,000	176,000	176,000
PUBLIC SAFETY, DEPARTMENT OF			
CASH TRANSFER TO AUTOMATION PROJECTS FUND	25,500	25,500	25,500
GIITEM	21,303,600	21,304,100	20,560,792
GIITEM IMPACT APPROPRIATION FY11-12	1,142	1,142	-
GIITEM IMPACT APPROPRIATION FY12-13	365,489	365,489	362,115
GIITEM IMPACT APPROPRIATION FY13-14	2,603,400	2,603,400	2,165,512
GIITEM SUBACCOUNT	2,390,000	2,390,000	2,240,912

The Notes to Required Supplementary Information are an integral part of this schedule.

(continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
GITTEM-GANG INTELLIGENCE TEAM ENFORCEMENT FY09-10	15	15	-
MICROWAVE COMMUNICATION SYSTEM FY06-07	265,760	265,760	168,364
MOTOR VEHICLE FUEL	3,704,200	3,704,200	3,688,758
OPERATING LUMP SUM APPROPRIATION	28,336,100	28,048,600	28,048,175
RACING, ARIZONA DEPARTMENT OF			
ARIZONA BREEDERS AWARD	250,000	250,000	250,000
COUNTY FAIR LIVESTOCK AND AGRICULTURAL	1,779,500	1,779,500	1,779,500
RADIATION REGULATORY AGENCY			
CASH TRANSFER TO AUTOMATION PROJECTS FUND	4,100	4,100	4,100
NUCLEAR EMERGENCY MANAGEMENT FUND	-	695,250	695,250
OPERATING LUMP SUM APPROPRIATION	1,308,600	1,352,900	1,352,153
REAL ESTATE DEPARTMENT, STATE			
ADMINISTRATIVE ADJUSTMENTS	-	4,188	4,188
OPERATING LUMP SUM APPROPRIATION	2,902,200	2,988,700	2,608,281
REGENTS, ARIZONA BOARD OF			
ARIZONA TEACHERS INCENTIVE PROGRAM	90,000	90,000	90,000
ARIZONA TRANSFER ARTICULATION SUPPORT SYSTEM	213,700	213,700	213,700
OPERATING LUMP SUM APPROPRIATION	2,350,300	2,349,300	2,349,300
PERFORMANCE FUNDING	5,000,000	5,000,000	5,000,000
STUDENT FINANCIAL ASSISTANCE	10,041,200	10,041,200	10,041,200
WESTERN INTERSTATE COMMISSION OFFICE	125,000	131,000	131,000
WICHE STUDENT SUBSIDIES	4,106,000	4,100,000	4,077,394
REVENUE, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	282,002	282,002
BRITS OPERATIONAL SUPPORT	7,452,200	7,452,200	7,426,563
CASH TRANSFER TO AUTOMATION PROJECTS FUND	187,700	187,700	187,700
OPERATING LUMP SUM APPROPRIATION	62,358,500	63,870,500	62,337,626
UNCLAIMED PROPERTY ADMINISTRATION/AUDIT	1,770,000	1,770,000	1,497,068
SCHOOL FACILITIES BOARD			
ADMINISTRATIVE ADJUSTMENTS	-	477	477
BUILDING RENEWAL GRANT	16,667,900	16,667,900	16,667,900
NEW SCHOOL CONSTRUCTION	672,000	672,000	672,000
NEW SCHOOL FACILITIES DEBT SERVICE	174,165,000	172,719,800	172,719,800
OPERATING LUMP SUM APPROPRIATION	1,610,700	1,676,500	1,598,936
SECRETARY OF STATE			
BUILDING RENOVATION AND CODE COMPLIANCE	-	228,700	106,882
CASH TRANSFER TO AUTOMATION PROJECTS FUND	4,100	4,100	4,100
ELECTION SERVICES	1,000,000	1,000,000	997,208
HELP AMERICA VOTE ACT FY12-13	877,521	877,521	(356)
HELP AMERICA VOTE ACT FY13-14	2,934,500	2,941,000	2,697,876
LIBRARY GRANTS-IN-AID FY11-12	3,438	3,438	-
LIBRARY GRANTS-IN-AID FY12-13	121,400	121,400	85,900
LIBRARY GRANTS-IN-AID FY13-14	651,400	651,400	531,691
OPERATING LUMP SUM APPROPRIATION	10,450,500	10,628,100	10,574,278
STATEWIDE RADIO READING SERVICE FOR BLIND	97,000	97,000	97,000
SENATE			
BORDER SECURITY TRUST FUND	263,667	263,667	-
OPERATING LUMP SUM APPROPRIATION FY11-12	784,184	784,184	-
OPERATING LUMP SUM APPROPRIATION FY12-13	206,625	206,625	76,061
OPERATING LUMP SUM APPROPRIATION FY13-14	8,036,300	8,333,800	8,254,217
SUPREME COURT			
ADMINISTRATIVE ADJUSTMENTS	-	6,103	6,103
ADOA BUILDING RENEWAL FUND FY09-10	1,321	1,321	1,321
ADULT INTENSIVE PROBATION	10,741,200	10,654,500	10,649,447
ADULT STANDARD PROBATION	13,526,700	13,443,200	13,420,985
AUTOMATION	3,332,600	3,352,800	2,955,806
CASE AND CASH MANAGEMENT SYSTEM	139,400	139,400	-
CASH TRANSFER BETWEEN FUNDS	11,700	11,700	11,700
COMMISSION ON JUDICIAL CONDUCT	506,800	522,300	521,981

The Notes to Required Supplementary Information are an integral part of this schedule.

(continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
COUNTY REIMBURSEMENTS	187,900	187,900	187,900
COURT APPOINTED SPECIAL ADVOCATE	102,000	102,000	102,000
DOMESTIC RELATIONS	640,300	655,400	634,076
DRUG COURT	1,013,600	1,013,600	1,013,599
DRUG COURT FY06-07	61,322	61,322	-
FOSTER CARE REVIEW BOARD	3,532,000	3,617,100	3,616,999
INTERSTATE COMPACT	641,800	648,000	647,616
JUDGES COMPENSATION	7,488,200	8,199,500	8,180,120
JUDICIAL NOMINATION AND PERFORMANCE REVIEW	417,200	428,400	427,566
JUVENILE DIVERSION CONSEQUENCES	9,024,900	9,024,900	9,024,900
JUVENILE FAMILY COUNSELING	660,400	660,400	653,416
JUVENILE INTENSIVE PROBATION	9,166,500	8,858,600	8,809,251
JUVENILE STANDARD PROBATION	4,600,500	4,606,200	4,574,951
JUVENILE TREATMENT SERVICES	22,314,900	22,341,400	22,245,005
MENTAL HEALTH COURT REPORT	90,000	90,000	18,724
MODEL COURT	447,600	447,600	447,429
OPERATING LUMP SUM APPROPRIATION	10,695,700	10,761,500	10,532,208
SPECIAL WATER MASTER	94,000	94,000	94,000
TAX APPEALS, STATE BOARD OF			
ADMINISTRATIVE ADJUSTMENTS	-	213	213
OPERATING LUMP SUM APPROPRIATION	254,800	264,700	262,809
TOURISM, OFFICE OF			
ADMINISTRATIVE ADJUSTMENTS	-	1,010,268	1,010,268
TOURISM FUND DEPOSIT	7,000,000	7,102,600	7,102,600
TRANSPORTATION, DEPARTMENT OF			
OPERATING LUMP SUM APPROPRIATION	50,500	50,400	4,137
TREASURER, STATE			
ADMINISTRATIVE ADJUSTMENTS	-	269,595	269,595
BUDGET STABILIZATION INTEREST TRANSFERS	-	2,000,000	2,000,000
CASH TRANSFER TO AUTOMATION PROJECTS FUND	19,300	19,300	19,300
COMMUNITY COLLEGE REIMBURSEMENT ARS 15-1469.01	-	3,273,119	3,273,119
CORPORATE INCOME TAX TRANSFER	-	7,000,000	7,000,000
JUSTICE OF THE PEACE SALARIES	1,205,100	1,205,100	937,912
OPERATING LUMP SUM APPROPRIATION	2,731,000	2,820,900	2,714,896
UNIVERSITY OF ARIZONA			
AGRICULTURE	28,540,300	30,608,300	30,608,300
ARIZONA COOPERATIVE EXTENSION	11,079,800	11,268,200	11,268,200
CLINICAL RURAL ROTATION	357,600	362,600	362,600
CLINICAL TEACHING SUPPORT	8,587,000	8,587,000	8,587,000
FREEDOM CENTER	500,000	500,000	500,000
LIVER RESEARCH INSTITUTE	458,500	448,900	448,900
OPERATING LUMP SUM APPROPRIATION - MAIN	90,254,200	142,745,400	142,745,400
OPERATING LUMP SUM APPROPRIATION-HSC	18,860,500	40,468,200	40,468,200
PHOENIX MEDICAL CAMPUS	22,691,100	23,475,300	23,475,300
RESEARCH INFRASTRUCTURE FACILITIES	-	14,253,000	14,253,000
SIERRA VISTA CAMPUS	2,858,100	3,515,000	3,515,000
TELEMEDICINE NETWORK	1,853,900	1,854,400	1,854,400
VETERANS' SERVICES, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	9,265	9,265
MILITARY FAMILY RELIEF FUND	15,291	15,291	-
OPERATING LUMP SUM APPROPRIATION	2,089,100	2,177,662	2,128,260
SOUTHERN ARIZONA CEMETERY	275,600	288,162	288,160
TUCSON VETERAN HOME CONSTRUCTION FY09-10	37,858	37,858	10,000
VETERANS BENEFIT COUNSELING	2,848,100	2,970,476	2,712,445
WATER RESOURCES, DEPARTMENT OF			
ADJUDICATION SUPPORT	1,212,900	1,256,700	1,208,949
ADMINISTRATIVE ADJUSTMENTS	-	4,338	4,338
ASSURED AND ADEQUATE WATER SUPPLY ADMIN	1,662,700	1,723,100	1,722,433
AUTOMATED GROUNDWATER MONITORING	401,100	410,200	403,546

The Notes to Required Supplementary Information are an integral part of this schedule.

(continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CONSERVATION AND DROUGHT PROGRAM	395,700	410,000	405,383
LOWER COLORADO RIVER LITIGATION EXPENSES	500,000	500,000	330,900
OPERATING LUMP SUM APPROPRIATION	6,721,300	6,858,700	6,740,987
RURAL WATER STUDIES	1,139,600	1,167,700	1,152,519
WEIGHTS AND MEASURES, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	-	1,609	1,609
GENERAL SERVICES	1,284,000	1,325,800	1,324,452
TOTAL GENERAL FUND BUDGETARY EXPENDITURES BEFORE ADJUSTMENTS	16,746,011,398	18,300,356,592	16,165,157,991
Less:			
Department of Health Services' Medicaid Behavioral Health appropriations for Insurance Premium Payments, Comprehensive and Dental, Prop 204 Administration Title XIX Match, Prop 204, Traditional, Title XIX Supplemental, and other appropriations that were duplicate expenditure authorizations	(782,624,100)	(921,630,709)	-
TOTAL GENERAL FUND BUDGETARY EXPENDITURES AFTER ADJUSTMENTS	<u>\$ 15,963,387,298</u>	<u>\$ 17,378,725,883</u>	<u>\$ 16,165,157,991</u>

The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
TRANSPORTATION AND AVIATION PLANNING,
HIGHWAY MAINTENANCE AND SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
TRANSPORTATION, DEPARTMENT OF			
ADMINISTRATIVE ADJUSTMENTS	\$ -	\$ 798,524	\$ 798,524
AIRPORT PLANNING AND DEVELOPMENT FY07-08	8,665,445	8,665,445	-
AIRPORT PLANNING AND DEVELOPMENT FY09-10	17,671,756	17,671,756	-
AIRPORT PLANNING AND DEVELOPMENT FY10-11	10,765,318	10,765,318	-
AIRPORT PLANNING AND DEVELOPMENT FY11-12	13,097,765	13,097,765	-
AIRPORT PLANNING AND DEVELOPMENT FY12-13	6,555,574	6,555,574	-
AIRPORT PLANNING AND DEVELOPMENT FY13-14	21,123,700	36,123,700	14,667,836
ASBESTOS AND LEAD INSPECTIONS FY01-02	94,798	94,798	-
ASBESTOS AND LEAD INSPECTIONS FY02-03	589,466	589,466	-
ATTORNEY GENERAL LEGAL SERVICES	2,895,600	2,895,600	2,895,600
BUILDING RENEWAL FY11-12	33,931	33,931	33,931
BUILDING RENEWAL FY12-13	930,784	930,784	800,730
BUILDING RENEWAL FY13-14	3,188,200	3,188,200	867,974
CASH TRANSFER TO AUTOMATION PROJECTS FUND	2,397,400	2,397,400	2,397,400
DE ICER BUILDINGS	2,280,000	2,280,000	538,731
FRAUD INVESTIGATION	755,400	773,300	770,477
HIGHWAY MAINTENANCE FY12-13	2,926,663	2,926,663	2,920,866
HIGHWAY MAINTENANCE FY13-14	131,195,400	132,716,500	127,133,228
HIGHWAY TO DPS TRANSFER - DOUBLE LOAD	6,780,000	6,743,800	6,743,800
HURF TO DPS TRANSFER - DOUBLE LOAD	119,961,000	119,247,100	119,247,100
LIE TO WMA TRANSFER	319,200	330,000	330,000
MOTOR CARRIER TOWING REGULATION FY04-05	11,108	11,108	-
MVD SECURITY ENHANCEMENT ISSUES FY02-03	715,687	715,687	-
NEW THIRD PARTY FUNDING	943,700	971,100	965,551
OPERATING LUMP SUM APPROPRIATION	203,223,500	206,902,200	203,548,180
SEF TO DPS TRANSFER - DOUBLE LOAD	1,574,700	1,566,300	1,566,300
STATEWIDE HIGHWAY CONSTRUCTION FY09-10	75,207,460	75,207,460	-
STATEWIDE HIGHWAY CONSTRUCTION FY10-11	510,131	510,131	-
STATEWIDE HIGHWAY CONSTRUCTION FY11-12	40,590,578	40,590,578	-
STATEWIDE HIGHWAY CONSTRUCTION FY12-13	65,367,932	65,367,932	-
STATEWIDE HIGHWAY CONSTRUCTION FY13-14	220,293,000	220,293,000	141,918,862
VEHICLE WASH SYSTEMS	3,000,000	3,000,000	85,467
TOTAL TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND BUDGETARY EXPENDITURES	\$ 963,665,196	\$ 983,961,120	\$ 628,230,557

The Notes to Required Supplementary Information are an integral part of this schedule

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2014

A. RECONCILIATION OF BUDGETARY TO GAAP EXPENDITURES

The accompanying Budgetary Comparison Schedules for the General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund present comparisons of the legally adopted budget with actual expenditure data on the budgetary basis. The original budget represents any appropriation bills passed by June 30, 2013 that affect available appropriations during fiscal year 2014. The final budget represents any appropriation bills passed during fiscal year 2014 for fiscal year 2014 plus the original budget. Appropriation bills passed after the end of fiscal year 2014 for fiscal year 2014 would also be included in the final budget.

The Budgetary Comparison Schedules present actual amounts on the State's budgetary basis for expenditures only. The Schedules include appropriations authorized in one fund and transferred, by legislation, to another fund. The State does not have a legally adopted budget for revenues; therefore, only expenditures are presented on the Budgetary Comparison Schedule, Expenditures for the General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund. As the budgetary and GAAP presentations of actual data differ, a reconciliation of the two follows (amounts expressed in thousands):

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund
Uses/outflows of resources		
Actual expenditure amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 16,165,158	\$ 628,231
Differences – budget to GAAP:		
Increase in unpaid incurred expenditures from fiscal year end 2013 to fiscal year end 2014.	3,200	468,776
Increase in unpaid payroll expenditures from fiscal year end 2013 to fiscal year end 2014. For budgetary reporting, final June 2013 payroll expenditures were charged to fiscal year 2014 budget and final June 2014 payroll expenditures were charged to fiscal year 2015 budget.	4,940	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,120,000	-
Distribution to counties and cities for Urban Revenue Sharing, derived from the State's income tax collections, is recognized as an expenditure on the modified accrual basis, but has no effect on budgetary expenditures.	592,501	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	100,678	13,236
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2014.	4,016,414	1,411,399
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(882,237)	(303,030)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 21,120,654</u>	<u>\$ 2,218,612</u>

There were no expenditures in excess of appropriations or allotments in the individual budget accounts for the year.

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2014

B. BUDGETARY BASIS OF ACCOUNTING

Formulation of the budget begins with the preparation of estimates of expenditure requirements by the head of each budgeted agency and institution. These estimates are submitted no later than September 1 of each year to the Governor's Office of Strategic Planning and Budgeting (OSPB), unless an extension is granted for up to an additional 30 days by the OSPB Director. The budget is prepared by line item and/or program elements for each agency.

The budget document, as finally developed by the Governor, must be submitted to the Legislature no later than five days after the regular session convenes. The Legislature must approve the budget by passing a general and a capital outlay appropriation bill and various omnibus reconciliation bills, which are used for statutory adjustments that must be implemented to carry out the budget. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative overrides. The budget can be amended throughout the year by special legislative appropriations and/or budget transfers. The State's Constitution prohibits the appropriation of certain state revenues (primarily tax and fee collections) from exceeding 7.41% of Arizona personal income as estimated by the Economic Estimates Commission.

The State prepares its operating budget on the cash basis of accounting. Encumbrances as of June 30 can be liquidated during an administrative period of up to four weeks known as the 13th month. At the time of the appropriation bill's passage, estimates prepared by legislative and executive branch professional staff assure the State Legislature that adequate revenues will be available to meet the level of appropriations approved. Anticipated revenue is estimated on the cash basis but is not part of the legally adopted budget. Consequently, the accompanying Budgetary Comparison Schedules only present budget to actual expenditure comparisons.

The Budgetary Comparison Schedules present all appropriation line items as passed by the State Legislature in order to demonstrate compliance with the legal level of budgetary control.

The State budgets on an annual basis. The budget format used by the State Legislature determines how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

Lump Sum – The appropriation of an agency for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs, and subprograms without further Legislative or Executive Branch review.

Lump Sum with Special Line Items – The appropriation of an agency for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include Full Time Equivalent positions. Agencies are permitted to shift funds among line items, programs, and subprograms without further Legislative or Executive Branch review, though footnotes may place additional restrictions or notifications upon the agency prior to or associated with transfers between special line items or to or from the operating budget.

During the fiscal year, \$1.6 billion in supplemental appropriations, net of mid-year reversions and adjustments, were provided to the General Fund. The Transportation and Aviation Planning, Highway Maintenance and Safety Fund appropriations increased by \$20.3 million. These amounts are included in the Budgetary Comparison Schedules.

State agencies are responsible for exercising budgetary control and ensuring that expenditures do not exceed appropriations. The ADOA's General Accounting Office exercises oversight and does not disburse funds in excess of appropriations.

The Governor shall have in continuous process of preparation and revision a tentative budget report for the next fiscal year for which a budget report is required to be prepared.

Whenever the expenses of any fiscal year shall exceed the income, the Legislature *may* provide for levying a tax for the ensuing fiscal year sufficient, with other sources of income, to pay the deficiency, as well as the estimated expenses of the ensuing fiscal year.

STATE OF ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES

JUNE 30, 2014

All expenditures of the State's money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature. Periodically, the State Legislature may appropriate monies for program expenditures already authorized by law, resulting in duplicate spending authority. In appropriating monies, the State Legislature has, in some cases, included external funding sources as a portion of an agency's total program expenditure authorization (budget) and has identified the external funding sources as an offset against the program appropriations total in order to reflect the State funding amount. An example of this is found in the final budget amount of \$693.3 million for the Department of Health Services' Medicaid Behavioral Health - Traditional on **page 136**, which includes \$486.8 million of duplicate expenditure authorizations. Accordingly, sometimes program expenditures may not exhaust specific legislative appropriations. To properly present the total budget (appropriation) information, in relationship to "actual" expenditure amounts, duplicate expenditure authorizations have been eliminated from the General Fund's budget (appropriation) totals on **page 140**.

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2014

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), as amended, the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,800 center lane miles (21,390 travel lane miles) of roads and 4,787 bridges that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- i Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets
- i Perform condition assessments of eligible assets and summarize the results using a measurement scale
- i Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State
- i Document that the assets are being preserved approximately at or above the established condition level

As adopted by the State Transportation Board on an annual basis, the Five-Year Transportation Facilities Construction Program (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadways and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2014 and beyond was adopted by the Transportation Board on June 25, 2013.

This Program is a dynamic instrument and adjustments are made to the annual plans based on the needs of the State to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the State. In addition, not only are adjustments made during the life of the Program, circumstances may require that refinements to the individual components of the Program be made during the fiscal year.

In comparing Estimated to Actual Expenditures in the tables that follow, significant variances can occur. These variances are primarily due to the methodology used in the preparation of the Program. In this Program, the Estimated Expenditures for the current year are based on “programmed” projects which may or may not be spent in the current year of the Program. Programmed expenditures consist of those items that are planned for the future, with contracts that have not yet been awarded. Furthermore, the Actual Expenditures will include projects that were programmed for a prior year’s Estimated Expenditures but which did not occur, or were not completed, in the prior year.

The following information pertains to the condition assessment and maintenance of infrastructure assets and reflects the State’s success in achieving condition levels that exceed the established levels.

Roads

The mission of the Arizona Department of Transportation’s (ADOT) Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the State’s investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the PMS both work toward the same basic goal, the efficient, effective management of the State’s assets to produce long-term benefits, while minimizing expenditures.

The PMS has developed performance goals for the condition level of the pavement in the State’s highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability”, which can be defined as the ability of a pavement to serve the traveling public (as documented in 1961 after the American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called the “Present Serviceability Rating” (PSR). PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2014

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

The goal of the State is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the State's highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2014, an overall rating of 3.69 was achieved, as shown in the following graph:

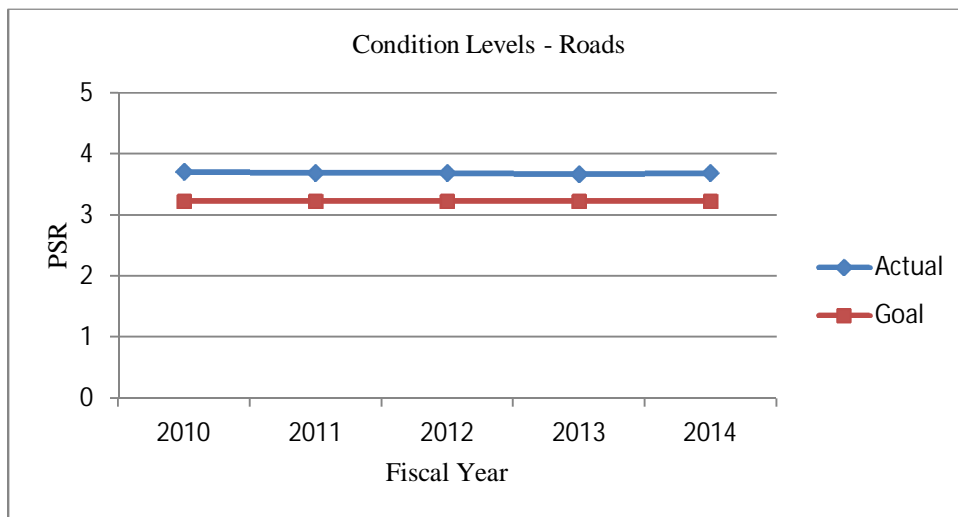


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT's PMS, as well as other units within the ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2010 through 2014 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2010	\$227.4	\$220.9
2011	\$265.7	\$373.4
2012	\$261.9	\$373.6
2013	\$276.3	\$291.3
2014	\$271.2	\$287.2

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2014

Bridges

The State's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2014, the State owned and maintained 4,787 bridges with an approximate total deck area of 49,066,801 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

A Condition Rating Index (CRI) is used to track the condition of the bridge network. The CRI is based on four selected bridge inspection condition ratings, which in turn are based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges." The four selected condition ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the super-structure condition, and the sub-structure condition. The bridge joints condition rating is an Arizona specific rating item not included in the FHWA condition rating guidelines, whereas the other three condition ratings are federally mandated condition ratings. The CRI is computed by subtracting from one, the ratio of the sum of the deck areas of all bridges with a condition rating of four or less, which indicates that the rated element is at best in a poor condition, to the total sum of the deck areas. The rating system in this guide is as follows:

Numerical Rating	Condition Rating
9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent Failure

Management of the bridge inventory is a major function of the ADOT's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of the State to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2014, the CRI was computed at 93.8%.

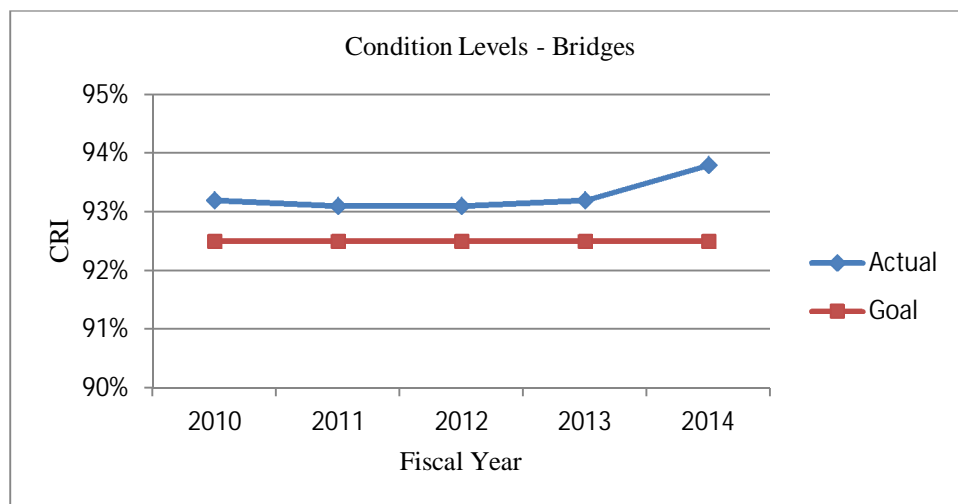


Figure 2

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2014

Bridges represent a major public investment, and their inspection and maintenance is an essential function of the State in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 56% of the bridges in the State were constructed prior to the 1970s while only 14% have been constructed since 2000.

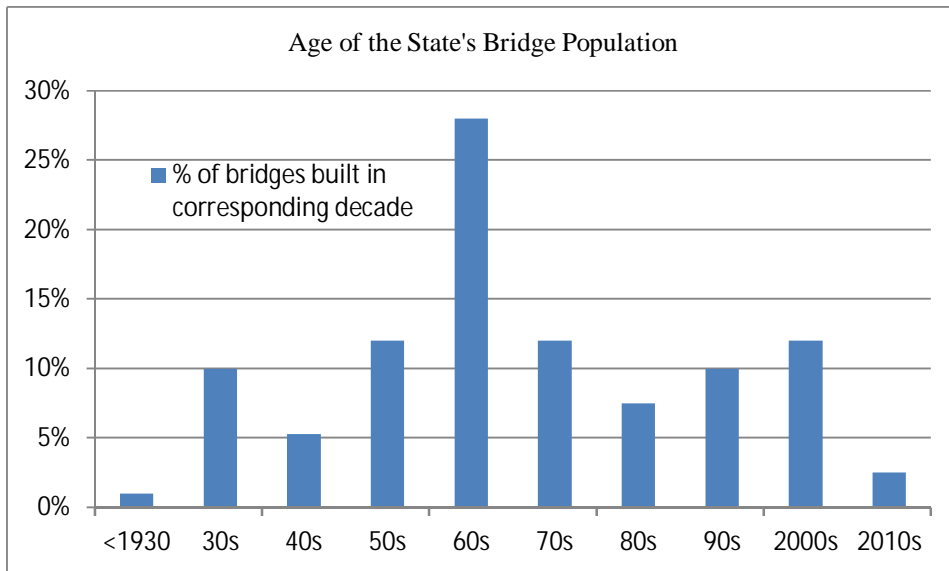


Figure 3

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2010 through 2014 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2010	\$16.1	\$22.4
2011	\$11.8	\$26.0
2012	\$12.5	\$20.6
2013	\$14.7	\$10.7
2014	\$21.2	\$20.5

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
AGENT BENEFIT PLANS' FUNDING PROGRESS
JUNE 30, 2014

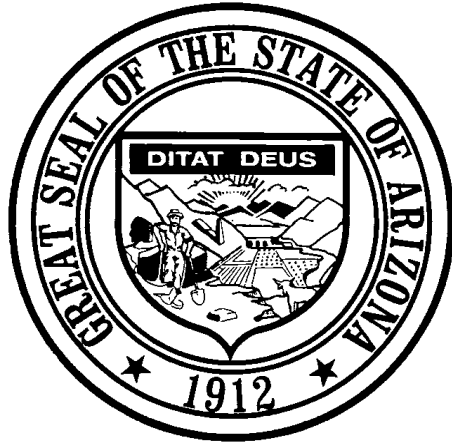
Analysis of the funding progress for each of the agent, multiple-employer defined benefit pension plans, as of the most recent actuarial valuations, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2014	\$ 450,284	\$ 1,240,343	\$ (790,059)	36.3%	\$ 85,973	(919.0)%
	6/30/2013	505,249	1,067,721	(562,472)	47.3%	82,363	(682.9)%
	6/30/2012	522,980	1,043,064	(520,084)	50.1%	82,352	(631.5)%
CORP	6/30/2014	852,041	1,520,026	(667,985)	56.1%	350,313	(190.7)%
	6/30/2013	900,160	1,289,715	(389,555)	69.8%	346,980	(112.3)%
	6/30/2012	888,879	1,244,672	(355,793)	71.4%	370,041	(96.1)%

Analysis of the funding progress for each of the agent, multiple-employer defined benefit post-employment plans, as of the most recent actuarial valuations, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Funded/ (Unfunded) AAL	Funded Ratio	Annual Covered Payroll	Funded/ (Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2014	\$ 35,607	\$ 29,668	\$ 5,939	120.0%	\$ 85,973	6.9%
	6/30/2013	-	29,165	(29,165)	0.0%	82,363	(35.4)%
	6/30/2012	-	29,183	(29,183)	0.0%	82,352	(35.4)%
CORP	6/30/2014	72,713	62,623	10,090	116.1%	350,313	2.9%
	6/30/2013	-	59,723	(59,723)	0.0%	346,980	(17.2)%
	6/30/2012	-	58,596	(58,596)	0.0%	370,041	(15.8)%

As described in Note 6.A., due to a change in statute, the PSPRS and CORP established separate funds for the health insurance premium subsidy benefit contributions. As a result, the plans transferred prior year health insurance premium subsidy benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.



COMBINING FINANCIAL STATEMENTS AND SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

The Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Capital Projects Funds

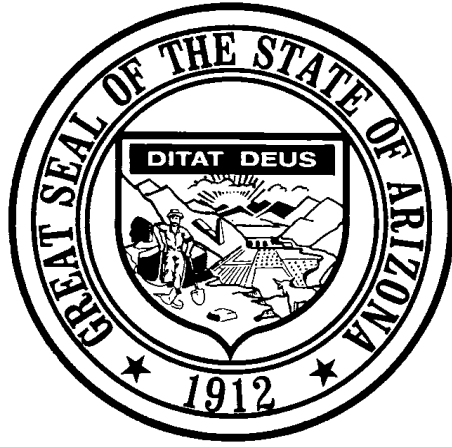
Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Pension Trust Funds or Component Units).

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
ASSETS				
Cash	\$ 1,377	\$ -	\$ -	\$ 1,377
Cash and pooled investments with State Treasurer	814,913	1,282	-	816,195
Collateral investment pool	14,898	-	-	14,898
Receivables, net of allowances:				
Taxes	73,579	-	-	73,579
Other	25,949	-	-	25,949
Due from U.S. Government	10,705	-	-	10,705
Due from other Funds	21,763	3,750	-	25,513
Restricted assets:				
Cash and pooled investments with State Treasurer	395,962	41,065	311,011	748,038
Cash held by trustee	-	11,571	-	11,571
Total Assets	<u>\$ 1,359,146</u>	<u>\$ 57,668</u>	<u>\$ 311,011</u>	<u>\$ 1,727,825</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	\$ 37,372	\$ 326	\$ -	\$ 37,698
Accrued liabilities	47,555	-	-	47,555
Obligations under securities loan agreements	14,898	-	-	14,898
Due to local governments	77,434	-	-	77,434
Due to others	10,436	-	-	10,436
Due to other Funds	26,945	-	-	26,945
Unearned revenue	381	-	-	381
Total Liabilities	<u>215,021</u>	<u>326</u>	<u>-</u>	<u>215,347</u>
Deferred Inflows of Resources	<u>796</u>	<u>-</u>	<u>-</u>	<u>796</u>
Fund Balances:				
Restricted	579,608	57,342	311,011	947,961
Committed	563,721	-	-	563,721
Total Fund Balances	<u>1,143,329</u>	<u>57,342</u>	<u>311,011</u>	<u>1,511,682</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,359,146</u>	<u>\$ 57,668</u>	<u>\$ 311,011</u>	<u>\$ 1,727,825</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
REVENUES				
Taxes:				
Sales	\$ 476,826	\$ 56,225	\$ -	\$ 533,051
Income	41	-	-	41
Tobacco	246,270	-	-	246,270
Property	2,000	-	-	2,000
Motor vehicle and fuel	154,111	-	-	154,111
Other	107,778	-	-	107,778
Intergovernmental	95,665	-	-	95,665
Licenses, fees, and permits	284,897	-	-	284,897
Hospital and nursing facility assessments	91,578	-	-	91,578
Earnings on investments	44,293	1,752	3,831	49,876
Sales and charges for services	23,310	-	-	23,310
Fines, forfeitures, and penalties	146,162	-	-	146,162
Gaming	80,195	-	-	80,195
Other	18,513	21	-	18,534
Total Revenues	<u>1,771,639</u>	<u>57,998</u>	<u>3,831</u>	<u>1,833,468</u>
EXPENDITURES				
Current:				
General government	131,199	-	-	131,199
Health and welfare	347,729	-	-	347,729
Inspection and regulation	118,683	-	-	118,683
Education	696,184	-	-	696,184
Protection and safety	249,230	-	-	249,230
Transportation	-	-	15,309	15,309
Natural resources	111,865	-	-	111,865
Debt service:				
Principal	9,795	301,500	-	311,295
Interest and other fiscal charges	15,918	232,837	-	248,755
Capital outlay	21,589	-	134,895	156,484
Total Expenditures	<u>1,702,192</u>	<u>534,337</u>	<u>150,204</u>	<u>2,386,733</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>69,447</u>	<u>(476,339)</u>	<u>(146,373)</u>	<u>(553,265)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	90,274	484,367	-	574,641
Transfers out	(151,847)	(10,680)	(266)	(162,793)
Total Other Financing Sources (Uses)	<u>(61,573)</u>	<u>473,687</u>	<u>(266)</u>	<u>411,848</u>
Net Change in Fund Balances	7,874	(2,652)	(146,639)	(141,417)
Fund Balances - Beginning	1,135,455	59,994	457,650	1,653,099
Fund Balances - Ending	<u>\$ 1,143,329</u>	<u>\$ 57,342</u>	<u>\$ 311,011</u>	<u>\$ 1,511,682</u>



NON-MAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS

The Public Safety and Correctional Programs Fund accounts for law enforcement, military, custody, and related services provided to the general public.

The Environmental Protection Fund accounts for the protection of the State's public health by administering the State's environmental quality laws and delegating federal programs to prevent, control, and abate pollution of our air, water, and land resources.

The Healthcare and Social Services Fund accounts for health and welfare services provided to the general public.

The Tobacco Tax and Healthcare Fund accounts for the receipt of monies levied on tobacco products. The monies are used for health education programs; research, prevention and treatment of tobacco related diseases; to increase the quality of, and access to, the early childhood development and health system that ensures a child entering school comes healthy and ready to succeed; and for medically needy healthcare programs.

The Judicial and Legal Services Fund accounts for the anti-racketeering, consumer protection, consumer fraud, anti-trust, and collections enforcement programs of the Attorney General's Office and statewide court improvement functions supervised by the Arizona Supreme Court.

The Regulating and Licensing Fund accounts for inspection and regulatory services provided to the general public.

The Game and Fish Fund accounts for the receipt of monies collected by the Department of Game and Fish for various hunting and fishing licenses, for the purpose of conserving, enhancing, and restoring Arizona's diverse wildlife resources and habitats, as well as providing safe watercraft and off-highway vehicle recreation.

The State Parks Development Fund accounts for the receipt of monies collected by the State Parks Fund for the purpose of acquiring and developing State park lands, sites and facilities.

The Business Development Fund accounts for the promotion of statewide economic and community development, which supports a globally competitive Arizona.

The Educational Programs Fund accounts for supplemental building needs and instructional improvement programs specifically identified in a voter initiative that enacted a six-tenth of one percent statewide sales tax dedicated to education functions. The Educational Programs Fund supports programs from the kindergarten through university educational levels.

The Groundwater Protection and Conservation Fund accounts for strategic water resources planning, Colorado River water management, drought management planning, dam safety, flood mitigation, administration of the Arizona Groundwater Management Code, and administration of water rights. These programs are the responsibility of the Department of Water Resources.

The Clean Elections System Fund accounts for fines and fees collected to pay for campaign expenses of statewide candidates and State legislative candidates who choose not to accept private source campaign funds. The fund was established as a result of a voter initiative.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
ASSETS						
Cash	\$ 1,329	\$ -	\$ -	\$ -	\$ -	\$ 18
Cash and pooled investments with State Treasurer	125,938	103,608	79,373	20,221	139,536	129,295
Collateral investment pool	-	-	-	13,239	1,659	-
Receivables, net of allowances:						
Taxes	4,732	-	4,091	14,308	-	-
Other	2	-	7,127	1,317	7	3,154
Due from U.S. Government	-	-	10,702	3	-	-
Due from other Funds	4,366	5,121	1,939	870	1,599	272
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	863	395,099	-	-
Total Assets	<u>\$ 136,367</u>	<u>\$ 108,729</u>	<u>\$ 104,095</u>	<u>\$ 445,057</u>	<u>\$ 142,801</u>	<u>\$ 132,739</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 21,119	\$ 3,992	\$ 2,244	\$ 1,180	\$ 3,303	\$ 2,217
Accrued liabilities	4,724	444	37,951	345	595	2,038
Obligations under securities loan agreements	-	-	-	13,239	1,659	-
Due to local governments	-	-	-	-	-	-
Due to others	-	-	-	10,237	-	199
Due to other Funds	669	93	1,303	14,398	7	10,262
Unearned revenue	-	-	381	-	-	-
Total Liabilities	<u>26,512</u>	<u>4,529</u>	<u>41,879</u>	<u>39,399</u>	<u>5,564</u>	<u>14,716</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>796</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:						
Restricted	-	-	13,029	405,658	41,313	-
Committed	109,855	104,200	48,391	-	95,924	118,023
Total Fund Balances	<u>109,855</u>	<u>104,200</u>	<u>61,420</u>	<u>405,658</u>	<u>137,237</u>	<u>118,023</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 136,367</u>	<u>\$ 108,729</u>	<u>\$ 104,095</u>	<u>\$ 445,057</u>	<u>\$ 142,801</u>	<u>\$ 132,739</u>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,377
46,054	12,239	22,073	94,008	19,103	23,465	814,913
-	-	-	-	-	-	14,898
-	-	-	50,448	-	-	73,579
2,047	-	7	12,288	-	-	25,949
-	-	-	-	-	-	10,705
207	351	-	7,038	-	-	21,763
-	-	-	-	-	-	395,962
<u>\$ 48,338</u>	<u>\$ 12,590</u>	<u>\$ 22,080</u>	<u>\$ 163,782</u>	<u>\$ 19,103</u>	<u>\$ 23,465</u>	<u>\$ 1,359,146</u>
\$ 2,870	\$ 301	\$ 4	\$ 95	\$ -	\$ 47	\$ 37,372
1,110	87	95	139	17	10	47,555
-	-	-	-	-	-	14,898
-	-	-	77,434	-	-	77,434
-	-	-	-	-	-	10,436
205	6	1	1	-	-	26,945
-	-	-	-	-	-	381
<u>4,185</u>	<u>394</u>	<u>100</u>	<u>77,669</u>	<u>17</u>	<u>57</u>	<u>215,021</u>
-	-	-	-	-	-	796
9,091	-	996	86,113	-	23,408	579,608
35,062	12,196	20,984	-	19,086	-	563,721
<u>44,153</u>	<u>12,196</u>	<u>21,980</u>	<u>86,113</u>	<u>19,086</u>	<u>23,408</u>	<u>1,143,329</u>
<u>\$ 48,338</u>	<u>\$ 12,590</u>	<u>\$ 22,080</u>	<u>\$ 163,782</u>	<u>\$ 19,103</u>	<u>\$ 23,465</u>	<u>\$ 1,359,146</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
REVENUES						
Taxes:						
Sales	\$ 17,105	\$ -	\$ 4,903	\$ -	\$ -	\$ -
Income	-	-	-	-	-	-
Tobacco	5,931	-	7,953	232,386	-	-
Property	-	-	2,000	-	-	-
Motor vehicle and fuel	127,568	16,441	-	-	-	330
Other	53,714	2,428	-	-	-	51,636
Intergovernmental	19,863	-	41,700	2,263	1,443	174
Licenses, fees, and permits	21,024	68,912	18,237	-	25,965	95,734
Hospital and nursing facility assessments	-	-	91,578	-	-	-
Earnings on investments	269	519	116	9,343	1,414	130
Sales and charges for services	11,470	-	3,337	-	491	2,540
Fines, forfeitures, and penalties	73,625	-	10,845	-	50,782	2,176
Gaming	-	-	21,455	-	-	9,698
Other	2,635	395	2,710	827	2,707	2,115
Total Revenues	333,204	88,695	204,834	244,819	82,802	164,533
EXPENDITURES						
Current:						
General government	27,471	1,217	3,131	575	77,780	1,750
Health and welfare	-	77,401	193,226	69,187	-	7,915
Inspection and regulation	-	1,504	-	-	31	117,148
Education	-	-	-	158,906	-	-
Protection and safety	249,230	-	-	-	-	-
Natural resources	27,119	358	-	-	-	-
Debt service:						
Principal	9,235	-	-	-	-	-
Interest and other fiscal charges	15,150	-	-	-	-	-
Capital outlay	13,200	132	496	28	479	756
Total Expenditures	341,405	80,612	196,853	228,696	78,290	127,569
Excess (Deficiency) of Revenues Over Expenditures	(8,201)	8,083	7,981	16,123	4,512	36,964
OTHER FINANCING SOURCES (USES)						
Transfers in	37,249	7,000	6,822	1,418	3,107	2,592
Transfers out	(27,638)	(4,387)	(2,595)	(37,045)	(58,904)	(16,497)
Total Other Financing Sources (Uses)	9,611	2,613	4,227	(35,627)	(55,797)	(13,905)
Net Change in Fund Balances	1,410	10,696	12,208	(19,504)	(51,285)	23,059
Fund Balances - Beginning	108,445	93,504	49,212	425,162	188,522	94,964
Fund Balances - Ending	\$ 109,855	\$ 104,200	\$ 61,420	\$ 405,658	\$ 137,237	\$ 118,023

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ -	\$ -	\$ -	\$ 454,818	\$ -	\$ -	\$ 476,826
-	-	-	41	-	-	41
-	-	-	-	-	-	246,270
-	-	-	-	-	-	2,000
900	8,580	-	292	-	-	154,111
-	-	-	-	-	-	107,778
27,223	-	1,907	1,092	-	-	95,665
37,977	3,181	4,181	2,836	6,850	-	284,897
-	-	-	-	-	-	91,578
342	87	185	31,759	129	-	44,293
3,039	-	301	2,124	8	-	23,310
131	-	-	-	10	8,593	146,162
6,131	-	-	42,911	-	-	80,195
1,271	-	3,086	87	2,447	233	18,513
77,014	11,848	9,660	535,960	9,444	8,826	1,771,639
-	1,932	10,661	-	-	6,682	131,199
-	-	-	-	-	-	347,729
-	-	-	-	-	-	118,683
-	-	14	537,264	-	-	696,184
-	-	-	-	-	-	249,230
70,516	7,143	-	-	6,729	-	111,865
560	-	-	-	-	-	9,795
768	-	-	-	-	-	15,918
4,798	1,033	11	621	-	35	21,589
76,642	10,108	10,686	537,885	6,729	6,717	1,702,192
372	1,740	(1,026)	(1,925)	2,715	2,109	69,447
10,058	-	212	21,516	300	-	90,274
(3,819)	(62)	(586)	(151)	(64)	(99)	(151,847)
6,239	(62)	(374)	21,365	236	(99)	(61,573)
6,611	1,678	(1,400)	19,440	2,951	2,010	7,874
37,542	10,518	23,380	66,673	16,135	21,398	1,135,455
\$ 44,153	\$ 12,196	\$ 21,980	\$ 86,113	\$ 19,086	\$ 23,408	\$ 1,143,329

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ACCOUNTANCY, ARIZONA STATE BOARD OF		
OPERATING LUMP SUM APPROPRIATION	\$ 1,933,700	\$ 1,522,758
ACUPUNCTURE BOARD OF EXAMINERS		
ADMINISTRATIVE ADJUSTMENTS	262	262
OPERATING LUMP SUM APPROPRIATION	150,200	143,137
ADMINISTRATION, ARIZONA DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	65,977	65,977
CASH TRANSFER TO AUTOMATION PROJECTS FUND	9,100	9,100
OPERATING LUMP SUM APPROPRIATION	1,500,000	1,146,229
AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM		
ALTCS SERVICES	51,567,500	49,771,727
PROPOSITION 204 SERVICES	93,284,500	93,284,500
TRADITIONAL MEDICAID SERVICES	37,389,300	32,864,685
APPRAISAL, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	38,027	38,027
OPERATING LUMP SUM APPROPRIATION	808,700	777,093
REGISTERED TRAINEE AND SUPERVISORY APPRAISALS	42,880	-
ATHLETIC TRAINING, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	297	297
OPERATING LUMP SUM APPROPRIATION	118,200	118,200
ATTORNEY GENERAL - DEPARTMENT OF LAW		
ADMINISTRATIVE ADJUSTMENTS	74,935	74,935
CASH TRANSFER TO AUTOMATION PROJECTS FUND	117,200	117,200
OPERATING LUMP SUM APPROPRIATION	9,738,200	9,386,773
PAD NATIONAL MORTGAGE SETTLEMENT	47,762,938	7,610,577
VICTIMS RIGHTS	3,997,800	3,971,552
AUTOMOBILE THEFT AUTHORITY		
AUTOMOBILE THEFT AUTHORITY GRANTS	4,607,700	4,567,361
CASH TRANSFER TO AUTOMATION PROJECTS FUND	30,800	30,800
OPERATING LUMP SUM APPROPRIATION	639,900	530,306
REIMBURSABLE PROGRAMS	50,000	15,000
BARBERS, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	4,495	4,495
OPERATING LUMP SUM APPROPRIATION	333,800	316,112
BEHAVIORAL HEALTH EXAMINERS, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	7,190	7,190
OPERATING LUMP SUM APPROPRIATION	1,758,100	1,447,232
BOARD OF MASSAGE THERAPY		
OPERATING LUMP SUM APPROPRIATION	457,200	451,240
CHIROPRACTIC EXAMINERS, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	1,682	1,682
OPERATING LUMP SUM APPROPRIATION	469,400	362,664
CONTRACTORS, REGISTRAR OF		
OFFICE OF ADMINISTRATIVE HEARINGS COSTS	1,017,600	221,200
OPERATING LUMP SUM APPROPRIATION	11,175,700	7,746,895
RESIDENTIAL CONTRACTOR'S RECOVERY FUND	2,700,000	2,700,000
CORPORATION COMMISSION		
ADMINISTRATIVE ADJUSTMENTS	128,606	128,606
CASH TRANSFER TO AUTOMATION PROJECTS FUND	179,300	179,300
CORPORATION FILINGS, SAME DAY SERVICE	400,400	-
OPERATING LUMP SUM APPROPRIATION	25,452,000	24,962,041
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY09-10	380,000	336,050
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY10-11	380,000	40
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY11-12	380,000	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY12-13	380,000	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY13-14	380,000	-
CORRECTIONS, STATE DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	26,408	26,408
CASH TRANSFER TO AUTOMATION PROJECTS FUND	284,900	284,900

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CASH TRANSFER TO BUILDING RENEWAL FUND	9,250,000	9,250,000
INMATE HEALTH CARE CONTRACTED SERVICES	10,000,000	9,930,242
OPERATING LUMP SUM APPROPRIATION	6,054,400	4,793,303
PRIVATE PRISON PER DIEM	24,517,000	23,631,873
COSMETOLOGY, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	680	680
OPERATING LUMP SUM APPROPRIATION	1,784,500	1,701,319
CRIMINAL JUSTICE COMMISSION, ARIZONA		
CASH TRANSFER BETWEEN FUNDS	83,500	83,500
CASH TRANSFER TO ATTORNEY GENERAL	500,000	500,000
CASH TRANSFER TO AUTOMATION PROJECTS FUND	83,500	83,500
OPERATING LUMP SUM APPROPRIATION	888,100	676,137
STATE AID TO COUNTY ATTORNEYS	973,600	973,600
VICTIM COMPENSATION AND ASSISTANCE	4,092,500	3,478,992
DEAF AND HARD OF HEARING, COMMISSION FOR THE		
ADMINISTRATIVE ADJUSTMENTS	14,984	14,984
CASH TRANSFER TO AUTOMATION PROJECTS FUND	27,000	27,000
INTERPRETER FOR CERTIFICATION AND LICENSURE FY04-05	255,313	-
OPERATING LUMP SUM APPROPRIATION	3,776,400	3,462,912
DENTAL EXAMINERS, STATE BOARD OF		
OPERATING LUMP SUM APPROPRIATION	1,214,800	1,114,805
ECONOMIC SECURITY, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	1,411,217	1,411,217
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	2,601,000	441,975
ATTORNEY GENERAL LEGAL SERVICES	91,600	2,628
CASH TRANSFER TO AUTOMATION PROJECTS FUND	39,000	39,000
CHILDREN SUPPORT SERVICES	1,459,100	-
DCYF OPERATING LUMP SUM	207,700	55,997
DOMESTIC VIOLENCE PREVENTION	2,220,000	2,220,000
INDEPENDENT LIVING REHABILITATION SERVICES	1,123,400	1,088,647
JOBS	1,110,900	-
REHABILITATION SERVICES	204,700	10,368
EDUCATION, DEPARTMENT OF		
ACCOUNTABILITY-SCHOOL SAFETY-PROP 301 FY11-12	-	(3,400)
ACCOUNTABILITY-SCHOOL SAFETY-PROP 301 FY12-13	7,716	7,716
ACCOUNTABILITY-SCHOOL SAFETY-PROP 301 FY13-14	7,800,000	7,739,956
ACHIEVEMENT TESTING-PROP 301 FY10-11	693,131	693,130
ACHIEVEMENT TESTING-PROP 301 FY11-12	3,089,185	1,367,944
ACHIEVEMENT TESTING-PROP 301 FY12-13	6,999,871	1,424,458
ACHIEVEMENT TESTING-PROP 301 FY13-14	7,000,000	-
ADDITIONAL SCHOOL DAYS-PROP 301 FY12-13	1	1
ADDITIONAL SCHOOL DAYS-PROP 301 FY13-14	86,280,500	86,280,500
CHARACTER EDUCATION-PROP 301 FY11-12	30	30
CHARACTER EDUCATION-PROP 301 FY12-13	85,853	85,853
CHARACTER EDUCATION-PROP 301 FY13-14	200,000	108,994
FAILING SCHOOL TUTORING-PROP 301 FY12-13	211,024	211,025
FAILING SCHOOL TUTORING-PROP 301 FY13-14	1,500,000	1,306,335
OPERATING LUMP SUM APPROPRIATION-ADMINISTRATION	138,100	134,705
OPERATING LUMP SUM APPROPRIATION-STATE BOARD	379,700	307,362
SCHOOL ACCOUNTABILITY-PROP 301 FY08-09	8,881	8,882
SCHOOL ACCOUNTABILITY-PROP 301 FY09-10	121,803	-
TEACHER CERTIFICATION	1,841,900	1,691,742
EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF		
CASH TRANSFER TO AUTOMATION PROJECTS FUND	1,000	1,000
EMERGENCY MANAGEMENT	132,700	111,507
ENVIRONMENTAL QUALITY, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	1,112,142	1,112,142
AIR QUALITY FEE FUND STATE TRANSFERS	400,000	400,000
AIR QUALITY PROGRAM - CONTINUING FY01-02	186,035	-

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
AIR QUALITY PROGRAM - CONTINUING FY02-03	182,451	-
CASH TRANSFER TO AUTOMATION PROJECTS FUND	5,386,200	5,386,200
EMISSIONS CAP AND TRADING PROGRAM FY01-02	70,576	-
EMISSIONS CAP AND TRADING PROGRAM FY02-03	266,582	-
EMISSIONS CONTROL - CONTRACTOR PAYMENTS	21,919,500	21,500,204
OPERATING LUMP SUM APPROPRIATION	32,106,000	22,229,926
POLITICAL SUBDIVISION ASSISTANCE FY01-02	18,500	-
ROADSIDE DIESEL EMISSIONS TEST FY01-02	200,000	-
UNDERGROUND STORAGE TANK APPEALS FY00-01	7,500	-
VISIBILITY INDEX DEVELOPMENT FY01-02	80,589	-
FINANCIAL INSTITUTIONS, DEPARTMENT OF		
OPERATING LUMP SUM APPROPRIATION	936,700	882,508
FUNERAL DIRECTORS AND EMBALMERS, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	717	717
OPERATING LUMP SUM APPROPRIATION	353,600	327,766
GAME AND FISH DEPARTMENT, ARIZONA		
ADMINISTRATIVE ADJUSTMENTS	1,135	1,135
BECKER LAKE FACILITY IMPROVEMENT FY07-08	9,094	-
BELLEMONT SHOOTING RANGE FY04-05	191	-
BEN AVERY IMPROVEMENTS FY09-10	1	-
BEN AVERY IMPROVEMENTS FY10-11	77,026	75,000
BLACK CANYON DAM MODIFICATIONS FY05-06	579,181	210,860
BLACK CANYON DAM MODIFICATIONS FY06-07	183,613	183,612
BLACK CANYON DAM MODIFICATIONS FY13-14	327,200	327,200
BOAT SHADE CANOPIES FY07-08	8,947	8,947
BOAT SHADE CANOPIES FY08-09	58,458	1,923
BUILDING RENEWAL FY12-13	523,300	446,557
BUILDING RENEWAL FY13-14	547,600	-
CASH TRANSFER TO AUTOMATION PROJECTS FUND	39,900	39,900
DAM MAINTENANCE FY11-12	434,294	-
DAM MAINTENANCE FY12-13	500,000	-
FLAGSTAFF SHOOTING RANGE PLANNING FY02-03	2,673	-
HEADQUARTERS SECURITY SYSTEM FY03-04	1	-
LAKE HAVASU SHOOTING RANGE FY03-04	4,722	-
LOWER COLORADO MULTI-SPECIES CONSERVATION	350,000	350,000
MIGRATORY WATERFOWL DEVELOPMENT FY01-02	151	-
MIGRATORY WATERFOWL DEVELOPMENT FY02-03	6,426	-
MIGRATORY WATERFOWL DEVELOPMENT FY03-04	16,715	500
MIGRATORY WATERFOWL HABITAT FY10-11	65,505	19,500
OPERATING LUMP SUM APPROPRIATION	33,927,800	30,460,668
PERFORMANCE INCENTIVE PAY FY12-13	346,100	-
PERFORMANCE INCENTIVE PAY FY13-14	346,100	-
PITTMAN-ROBERTSON/DINGELL-JOHNSON ACT	3,808,000	2,558,000
PROPERTY MAINTENANCE FY11-12	131,261	-
PROPERTY MAINTENANCE FY12-13	326,412	287,637
RADIO TOWER FY09-10	250,000	-
RADIO TOWER FY10-11	250,000	-
REGIONAL KINGMAN OFFICE REMODEL FY09-10	885,736	62,550
SHOOTING RANGE ACCESS IMPROVEMENTS FY09-10	1	-
SHOOTING RANGE ACCESS IMPROVEMENTS FY10-11	1	-
SILVER CREEK HATCHERY REMODEL FY09-10	1,650,933	-
SILVER CREEK HATCHERY REMODEL FY10-11	1,000,000	-
STATEWIDE PREVENTATIVE MAINTENANCE FY09-10	1	-
STATEWIDE PREVENTATIVE MAINTENANCE FY11-12	1	-
STATEWIDE PREVENTATIVE MAINTENANCE FY12-13	1	-
TRI-STATE SHOOTING RANGE DEVELOPMENT FY04-05	112,606	17,221
WATERCRAFT GRANT PROGRAM	1,000,000	-
WATERCRAFT SAFETY EDUCATION PROGRAM	250,000	241,003

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
GAMING, DEPARTMENT OF		
ADDITIONAL OPERATING EXPENSES	800,400	-
CASINO OPERATION CERTIFICATION	2,104,000	1,938,715
OPERATING LUMP SUM APPROPRIATION	8,329,900	7,944,658
PROBLEM GAMBLING	2,262,700	1,990,564
GOVERNOR, OFFICE OF THE		
OPERATING LUMP SUM APPROPRIATION	192,300	-
HEALTH SERVICES, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	179,951	179,951
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	18,640,300	15,717,942
ALZHEIMER DISEASE RESEARCH	1,000,000	1,000,000
CASH TRANSFER BETWEEN FUNDS	300	300
CASH TRANSFER TO AUTOMATION PROJECTS FUND	165,200	165,200
CRISIS SERVICES	2,250,000	2,250,000
FOLIC ACID	400,000	379,824
HIGH RISK PERINATAL SERVICES	450,000	341,382
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	34,767,000	34,767,000
NEWBORN SCREENING PROGRAM	6,307,000	5,785,331
NURSING FACILITY STUDY	90,000	58,725
RENAL DENTAL CARE AND NUTRITION SUPPLEMT	300,000	975
HOMEOPATHIC AND INTEGRATED MEDICINE EXAMINERS, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	219	219
OPERATING LUMP SUM APPROPRIATION	102,100	81,058
HOUSING, ARIZONA DEPARTMENT OF		
OPERATING LUMP SUM APPROPRIATION	313,800	313,800
INDUSTRIAL COMMISSION OF ARIZONA		
ADMINISTRATIVE ADJUSTMENTS	53,110	53,110
CASH TRANSFER TO AUTOMATION PROJECTS FUND	142,500	142,500
OPERATING LUMP SUM APPROPRIATION	19,989,500	19,421,487
JUVENILE CORRECTIONS, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	3,003	3,003
CASH TRANSFER TO AUTOMATION PROJECTS FUND	3,800	3,800
OPERATING LUMP SUM APPROPRIATION	530,600	332,296
LAND DEPARTMENT, STATE		
NATURAL RESOURCE CONSERVATION DISTRICTS	260,000	173,669
MEDICAL EXAMINERS BOARD		
ADMINISTRATIVE ADJUSTMENTS	6,273	6,273
CREDENTIALS VERIFICATION CONTRACT	855,000	-
OPERATING LUMP SUM APPROPRIATION	5,738,700	5,654,161
PERFORMANCE BASED INCENTIVE PROGRAM	150,000	86,782
MINE INSPECTOR, STATE		
ADMINISTRATIVE ADJUSTMENTS	62	62
AGGREGATE MINED LAND RECLAMATION	112,500	28,805
CASH TRANSFER BETWEEN FUNDS	600	600
CASH TRANSFER TO AUTOMATION PROJECTS FUND	800	800
NATUROPATHIC PHYSICIANS MEDICAL BOARD		
ADMINISTRATIVE ADJUSTMENTS	14,478	14,478
OPERATING LUMP SUM APPROPRIATION	174,700	152,706
NURSING CARE INSTITUTION ADMINISTRATORS AND ASSISTED LIVING FACILITY MANAGERS, BOARD OF EXAMINERS OF		
OPERATING LUMP SUM APPROPRIATION	420,200	345,538
NURSING, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	17,207	17,207
OPERATING LUMP SUM APPROPRIATION	4,275,600	4,269,690
OCCUPATIONAL THERAPY EXAMINERS, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	1,016	1,016
OPERATING LUMP SUM APPROPRIATION	172,500	172,413
OPTICIANS, STATE BOARD OF DISPENSING		
ADMINISTRATIVE ADJUSTMENTS	297	297

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING LUMP SUM APPROPRIATION	135,800	131,454
OPTOMETRY, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	760	760
OPERATING LUMP SUM APPROPRIATION	206,000	199,373
OSTEOPATHIC EXAMINERS, ARIZONA BOARD OF		
OPERATING LUMP SUM APPROPRIATION	775,500	744,202
PEST MANAGEMENT, OFFICE OF		
OPERATING LUMP SUM APPROPRIATION	2,039,000	1,264,740
PHARMACY, ARIZONA STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	1,694	1,694
AZ POISON AND DRUG INFORMATION CENTER	200,000	200,000
CONTROLLED SUBSTANCE PRESCRIPTION MONITORING PROGRAM	350,000	350,000
OPERATING LUMP SUM APPROPRIATION	2,103,700	1,901,485
PHYSICAL THERAPY EXAMINERS, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	2,469	2,469
OPERATING LUMP SUM APPROPRIATION	432,600	411,375
PODIATRY EXAMINERS, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	181	181
OPERATING LUMP SUM APPROPRIATION	147,300	124,871
POSTSECONDARY EDUCATION, COMMISSION FOR		
ADMINISTRATIVE ADJUSTMENTS	3,915	3,915
ARIZONA COLLEGE AND CAREER GUIDE	21,300	16,145
AZ MINORITY ED POLICY ANALYSIS CENTER	100,000	18,996
LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP	1,098,700	1,098,700
OPERATING LUMP SUM APPROPRIATION FY08-09	-	(143,635)
OPERATING LUMP SUM APPROPRIATION FY13-14	184,800	104,784
TWELVE PLUS PARTNERSHIP	130,500	44,037
PRIVATE POSTSECONDARY EDUCATION, STATE BOARD FOR		
OPERATING LUMP SUM APPROPRIATION	641,200	616,373
PSYCHOLOGIST EXAMINERS, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	3,998	3,998
OPERATING LUMP SUM APPROPRIATION	375,500	359,970
PUBLIC SAFETY, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	5,708	5,708
CASH TRANSFER TO AUTOMATION PROJECTS FUND	1,296,600	1,296,600
DNA TESTING	38,680	-
DNA TESTING FY02-03	1,258,331	-
DNA TESTING FY03-04	678,704	-
DNA TESTING FY07-08	938,531	-
MOTOR VEHICLE FUEL	231,300	231,300
OPERATING LUMP SUM APPROPRIATION	176,867,600	174,827,073
PUBLIC SAFETY EQUIPMENT FY09-10	2,728,719	-
PUBLIC SAFETY EQUIPMENT FY11-12	244,856	-
PUBLIC SAFETY EQUIPMENT FY12-13	277,463	192,895
PUBLIC SAFETY EQUIPMENT FY13-14	1,200,000	1,123,615
PUBLIC SAFETY EQUIPMENT SURCHARGE	2,390,000	2,086,210
RACING, ARIZONA DEPARTMENT OF		
CASH TRANSFER TO AUTOMATION PROJECTS FUND	20,400	20,400
OPERATING LUMP SUM APPROPRIATION	2,895,900	2,815,860
RADIATION REGULATORY AGENCY		
CASH TRANSFER TO AUTOMATION PROJECTS FUND	1,900	1,900
OPERATING LUMP SUM APPROPRIATION	273,300	235,993
RESIDENTIAL UTILITY CONSUMER OFFICE		
ADMINISTRATIVE ADJUSTMENTS	727	727
CASH TRANSFER TO AUTOMATION PROJECTS FUND	9,400	9,400
OPERATING LUMP SUM APPROPRIATION	1,189,400	1,000,716
PROFESSIONAL WITNESSES FY08-09	234	234
PROFESSIONAL WITNESSES FY09-10	2,625	2,625
PROFESSIONAL WITNESSES FY10-11	57,817	57,622

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
PROFESSIONAL WITNESSES FY11-12	125,871	81,075
PROFESSIONAL WITNESSES FY12-13	134,923	-
PROFESSIONAL WITNESSES FY13-14	145,000	31,274
RESPIRATORY CARE EXAMINERS, BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	1,243	1,243
OPERATING LUMP SUM APPROPRIATION	297,100	294,934
REVENUE, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	1,048	1,048
OPERATING LUMP SUM APPROPRIATION	679,300	574,345
SUPREME COURT		
AUTOMATION	7,991,800	6,432,217
CASE AND CASH MANAGEMENT SYSTEM	3,187,100	2,501,691
CASH TRANSFER BETWEEN FUNDS	171,900	171,900
CASH TRANSFER TO AUTOMATION PROJECTS FUND	283,700	283,700
CASH TRANSFER TO GENERAL FUND	675,000	675,000
COMMUNITY PUNISHMENT	2,310,100	1,451,393
COURT APPOINTED SPECIAL ADVOCATE	2,940,900	2,550,706
JUVENILE CRIME REDUCTION	5,192,100	3,883,257
OPERATING LUMP SUM APPROPRIATION	3,311,100	2,620,021
PROBATION SURCHARGE	6,029,200	6,019,161
STATE AID	5,949,100	4,653,657
TECHNICAL REGISTRATION, STATE BOARD OF		
ADMINISTRATIVE ADJUSTMENTS	2,908	2,908
OPERATING LUMP SUM APPROPRIATION	2,119,500	1,774,737
TREASURER, STATE		
LAW ENFORCEMENT AND BOATING SAFETY DIST	2,183,800	1,931,590
VETERANS' SERVICES, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	1,484	1,484
OPERATING LUMP SUM APPROPRIATION	906,300	526,709
VETERINARY MEDICAL EXAMINING BOARD, ARIZONA STATE		
ADMINISTRATIVE ADJUSTMENTS	7,459	7,459
OPERATING LUMP SUM APPROPRIATION	483,400	435,810
WATER RESOURCES, DEPARTMENT OF		
ASSURED AND ADEQUATE WATER SUPPLY ADMIN	266,400	5,076
CASH TRANSFER TO AUTOMATION PROJECTS FUND	2,900	2,900
OPERATING LUMP SUM APPROPRIATION	640,400	82,779
WEIGHTS AND MEASURES, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	67,582	67,582
CASH TRANSFER TO AUTOMATION PROJECTS FUND	12,500	12,500
GENERAL SERVICES	330,000	329,999
OXYGENATED FUEL	845,200	845,043
VAPOR RECOVERY	618,600	616,951
TOTAL NON-MAJOR SPECIAL REVENUE FUNDS BUDGETARY EXPENDITURES	\$ 963,005,010	\$ 832,855,897

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 LAND ENDOWMENTS FUND
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CORRECTIONS, STATE DEPARTMENT OF		
CASH TRANSFER TO BUILDING RENEWAL FUND	\$ 1,250,000	\$ 1,250,000
OPERATING LUMP SUM APPROPRIATION	360,000	359,880
PRIVATE PRISON PER DIEM	979,200	892,271
DEAF AND BLIND, ARIZONA SCHOOLS FOR THE		
CASH TRANSFER TO AUTOMATION PROJECTS FUND	97,800	97,800
PHOENIX DAY SCHOOL FOR THE DEAF	5,700,000	5,700,000
PRESCHOOL AND OUTREACH PROGRAMS	3,575,500	2,173,363
TUCSON CAMPUS	4,020,600	4,020,600
VOUCHER FUND ADJUSTMENT	289,400	275,093
EDUCATION, DEPARTMENT OF		
BASIC STATE AID ENTITLEMENT	46,475,500	46,475,500
HEALTH SERVICES, DEPARTMENT OF		
ADMINISTRATIVE ADJUSTMENTS	396,000	396,000
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	650,000	623,680
JUVENILE CORRECTIONS, DEPARTMENT OF		
OPERATING LUMP SUM APPROPRIATION	1,098,600	1,098,600
LAND DEPARTMENT, STATE		
OPERATING LUMP SUM APPROPRIATION	3,174,500	1,155,588
PIONEERS' HOME, ARIZONA		
ADMINISTRATIVE ADJUSTMENTS	6	6
OPERATING LUMP SUM APPROPRIATION	4,456,600	4,254,911
PRESCRIPTION DRUGS	200,000	139,239
TOTAL LAND ENDOWMENTS FUNDS BUDGETARY EXPENDITURES	\$ 72,723,706	\$ 68,912,531

NON-MAJOR GOVERNMENTAL FUNDS DEBT SERVICE FUNDS

The Lottery Fund administers the payment of principal and interest on the Lottery Revenue Bonds issued by the State of Arizona (acting by and through the Director of the Department of Administration).

The Department of Transportation Fund administers the payment of principal and interest on the Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes issued by the Arizona Department of Transportation Board.

The Certificates of Participation Fund administers the payment of principal and interest on the certificates of participation issued by the State of Arizona (acting by and through the Director of the Department of Administration) and the retirement of previously issued certificates of participation.

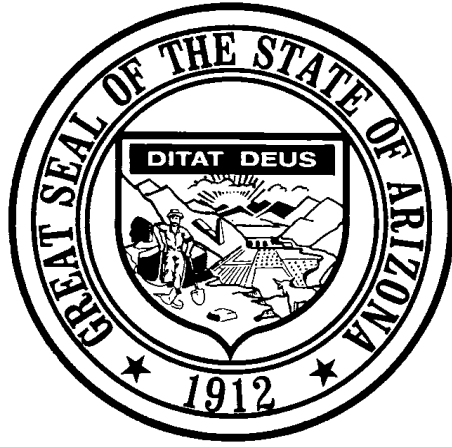
The School Facilities Debt Instrument Fund administers the payment of principal and interest on revenue bonds issued by the State of Arizona's School Facilities Board and the retirement of previously issued revenue bonds.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
ASSETS					
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ 1,002	\$ 280	\$ 1,282
Due from other Funds	3,750	-	-	-	3,750
Restricted assets:					
Cash and pooled investments with State Treasurer	-	179	-	40,886	41,065
Cash held by trustee	-	-	155	11,416	11,571
Total Assets	<u>\$ 3,750</u>	<u>\$ 179</u>	<u>\$ 1,157</u>	<u>\$ 52,582</u>	<u>\$ 57,668</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	\$ -	\$ -	\$ 326	\$ -	\$ 326
Total Liabilities	<u>-</u>	<u>-</u>	<u>326</u>	<u>-</u>	<u>326</u>
Fund Balances:					
Restricted	\$ 3,750	\$ 179	\$ 831	\$ 52,582	\$ 57,342
Total Liabilities and Fund Balances	<u>\$ 3,750</u>	<u>\$ 179</u>	<u>\$ 1,157</u>	<u>\$ 52,582</u>	<u>\$ 57,668</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
REVENUES					
Sales taxes	\$ -	\$ -	\$ -	\$ 56,225	\$ 56,225
Earnings on investments	-	868	-	884	1,752
Other	-	-	21	-	21
Total Revenues	-	868	21	57,109	57,998
EXPENDITURES					
Debt service:					
Principal	17,445	165,615	52,445	65,995	301,500
Interest and other fiscal charges	20,055	139,805	58,429	14,548	232,837
Total Expenditures	37,500	305,420	110,874	80,543	534,337
(Deficiency) of Revenues Over Expenditures	(37,500)	(304,552)	(110,853)	(23,434)	(476,339)
OTHER FINANCING SOURCES (USES)					
Transfers in	37,500	303,030	112,275	31,562	484,367
Transfers out	-	-	(10,680)	-	(10,680)
Total Other Financing Sources	37,500	303,030	101,595	31,562	473,687
Net Change in Fund Balances	-	(1,522)	(9,258)	8,128	(2,652)
Fund Balances - Beginning	3,750	1,701	10,089	44,454	59,994
Fund Balances - Ending	\$ 3,750	\$ 179	\$ 831	\$ 52,582	\$ 57,342



NON-MAJOR GOVERNMENTAL FUNDS CAPITAL PROJECTS FUNDS

The Department of Transportation Financed Fund administers the proceeds from the Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes issued by the Arizona Department of Transportation Board. These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

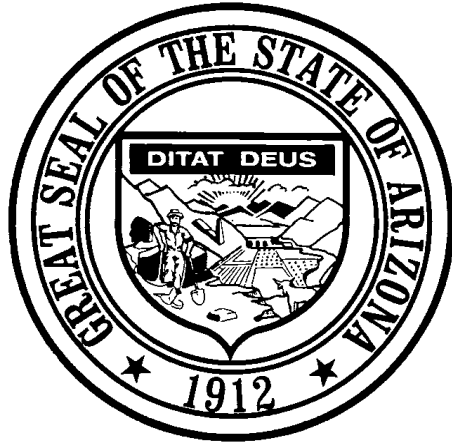
The Certificates of Participation Financed Fund administers the proceeds from the certificates of participation issued by the State of Arizona (acting by and through the Director of the Department of Administration). These monies are expended on various projects including new building construction.

STATE OF ARIZONA
COMBINING BALANCE SHEET
 NON-MAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2014
 (Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED
ASSETS	
Restricted assets:	
Cash and pooled investments with State Treasurer	\$ 311,011
Total Assets	<u>\$ 311,011</u>
FUND BALANCES	
Fund Balances:	
Restricted	\$ 311,011
Total Fund Balances	<u>311,011</u>
Total Fund Balances	<u>\$ 311,011</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	TOTAL
REVENUES			
Earnings on investments	\$ 3,830	\$ 1	\$ 3,831
Total Revenues	3,830	1	3,831
EXPENDITURES			
Current:			
Transportation	15,309	-	15,309
Capital outlay	134,883	12	134,895
Total Expenditures	150,192	12	150,204
(Deficiency) of Revenues Over Expenditures	(146,362)	(11)	(146,373)
OTHER FINANCING (USES)			
Transfers out	-	(266)	(266)
Total Other Financing (Uses)	-	(266)	(266)
Net Change in Fund Balances	(146,362)	(277)	(146,639)
Fund Balances - Beginning	457,373	277	457,650
Fund Balances - Ending	\$ 311,011	\$ -	\$ 311,011



NON-MAJOR ENTERPRISE FUNDS

Enterprise Funds account for operations (a) financed and operated in a manner similar to private business enterprises, where the State intends that the cost of providing goods or services to the general public be financed or recovered primarily through service charges, or (b) where the State decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Arizona Industries for the Blind Fund accounts for the manufacturing, sale, distribution, and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

The Lottery Fund accounts for the revenues received from the sale of lottery tickets, the receipt of license fees, prize payments, operational expenses, including consulting, promotional, and advertising expenses, and transfers of monies to other State Funds.

The Arizona Correctional Industries Fund employs prison inmates in its manufacturing, service, and agricultural operations for the sale of goods and services primarily to other State agencies (including the Arizona Department of Corrections) and political subdivisions.

The Arizona Highways Magazine Fund publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

The Coliseum & Exposition Center Fund provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

The Unemployment Compensation Fund pays claims for unemployment to eligible recipients from employer contributions and reimbursements.

The Highway Expansion & Extension Loan Program provides the State and communities in Arizona a new financing mechanism to stretch limited transportation dollars and bridge the gap between needs and available revenues.

The Healthcare Group of Arizona administers prepaid medical coverage primarily to small, uninsured businesses with 50 or fewer employees and employees of political subdivisions. The Healthcare Group of Arizona processes premium billing, collections and fund disbursements, performs data analysis, and is responsible for the regulatory oversight of the health plans.

The Other Enterprise Funds consist of the Veterans Administration Reimbursement Fund, the State Home for Veterans Trust Fund and the Tonto Natural Bridge Publications and Souvenirs Revolving Fund.

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER
ASSETS					
Current Assets:					
Cash	\$ 4,173	\$ -	\$ 60	\$ -	\$ 60
Cash with U.S. Treasury	-	-	-	-	-
Cash and pooled investments with State Treasurer	2	44,979	5,306	3,292	3,102
Restricted cash and pooled investments with State Treasurer	-	-	-	-	-
Receivables, net of allowances:					
Taxes	-	-	-	-	-
Other	2,329	7,623	3,551	156	65
Due from U.S. Government	73	-	-	-	-
Due from other Funds	10	-	-	33	-
Inventories, at cost	2,372	5,957	4,987	286	-
Other current assets	106	-	136	302	116
Total Current Assets	9,065	58,559	14,040	4,069	3,343
Noncurrent Assets:					
Other noncurrent assets	-	9,862	-	-	-
Capital assets:					
Land and other non-depreciable	182	951	693	8	70
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,779	2,748	3,293	16	9,182
Total Noncurrent Assets	1,961	13,561	3,986	24	9,252
Total Assets	11,026	72,120	18,026	4,093	12,595
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	416	3,429	853	53	50
Accrued liabilities	229	-	298	36	68
Due to U.S. Government	-	-	-	-	-
Due to others	-	28,678	-	-	-
Due to component units	-	260	-	-	-
Due to other funds	-	28,813	-	-	-
Unearned revenue	29	-	-	2,040	83
Current portion of other long-term liabilities	223	322	474	153	173
Total Current Liabilities	897	61,502	1,625	2,282	374
Noncurrent Liabilities:					
Other long-term liabilities	73	-	-	-	-
Total Noncurrent Liabilities	73	-	-	-	-
Total Liabilities	970	61,502	1,625	2,282	374
NET POSITION					
Net investment in capital assets	1,961	3,699	3,986	24	9,252
Restricted for:					
Unemployment Compensation	-	-	-	-	-
Loans and other financial assistance:					
Expendable	-	-	-	-	-
Unrestricted	8,095	6,919	12,415	1,787	2,969
Total Net Position	\$ 10,056	\$ 10,618	\$ 16,401	\$ 1,811	\$ 12,221

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 4,293
8,244	-	-	-	8,244
-	-	7,257	4,580	68,518
-	77,833	-	-	77,833
91,906	-	-	-	91,906
13,684	-	-	2,946	30,354
-	-	-	-	73
-	-	-	101	144
-	-	-	-	13,602
-	-	-	-	660
113,834	77,833	7,257	7,627	295,627
-	-	-	-	9,862
-	-	-	980	2,884
-	-	-	6,835	23,853
-	-	-	7,815	36,599
113,834	77,833	7,257	15,442	332,226
19	-	3	466	5,289
28,874	-	1	433	29,939
13,025	-	-	-	13,025
13,982	-	-	-	42,660
-	-	-	-	260
349	-	-	-	29,162
-	-	-	-	2,152
-	-	-	528	1,873
56,249	-	4	1,427	124,360
-	-	-	-	73
-	-	-	-	73
56,249	-	4	1,427	124,433
-	-	-	7,815	26,737
57,585	-	-	-	57,585
-	77,833	-	-	77,833
-	-	7,253	6,200	45,638
\$ 57,585	\$ 77,833	\$ 7,253	\$ 14,015	\$ 207,793

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET POSITION**
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

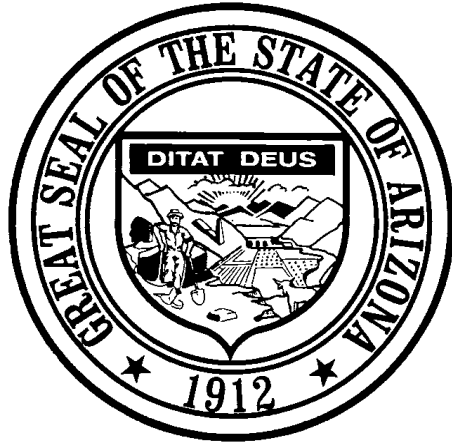
	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER
OPERATING REVENUES					
Sales and charges for services	\$ 17,820	\$ 723,955	\$ 37,997	\$ 4,507	\$ 11,050
Unemployment assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-
Other	260	340	-	657	963
Total Operating Revenues	18,080	724,295	37,997	5,164	12,013
OPERATING EXPENSES					
Cost of sales and benefits	8,411	525,492	32,135	2,511	1,827
Personal services	6,200	5,890	4,064	1,563	4,251
Contractual services	2,236	15,594	-	618	3,729
Depreciation and amortization	355	275	623	7	633
Insurance	-	40	-	-	276
Other	877	1,488	-	86	1,275
Total Operating Expenses	18,079	548,779	36,822	4,785	11,991
Operating Income	1	175,516	1,175	379	22
NON-OPERATING REVENUES (EXPENSES)					
(Loss) on sale of capital assets	-	-	(9)	-	-
Investment income	9	104	36	27	11
Other non-operating revenue	-	-	-	-	-
Distributions	-	(14,763)	-	-	-
Interest expense	-	-	-	-	-
Other non-operating expense	-	-	-	(3)	-
Total Non-Operating Revenues (Expenses)	9	(14,659)	27	24	11
Income Before Contributions and Transfers	10	160,857	1,202	403	33
Capital grants and contributions	-	-	-	-	107
Transfers out	-	(160,858)	(1,303)	(34)	(80)
Change in Net Position	10	(1)	(101)	369	60
Total Net Position - Beginning	10,046	10,619	16,502	1,442	12,161
Total Net Position - Ending	\$ 10,056	\$ 10,618	\$ 16,401	\$ 1,811	\$ 12,221

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
\$ -	\$ -	\$ 11,747	\$ 31,652	\$ 838,728
455,979	-	-	-	455,979
84,094	-	-	-	84,094
1,878	-	-	-	1,878
5,507	-	-	73	7,800
547,458	-	11,747	31,725	1,388,479
452,025	-	10,396	45	1,032,842
-	-	586	19,555	42,109
-	-	79	3,827	26,083
-	-	1	338	2,232
-	-	-	410	726
-	-	107	5,117	8,950
452,025	-	11,169	29,292	1,112,942
95,433	-	578	2,433	275,537
-	-	-	-	(9)
1,688	664	59	10	2,608
-	-	62	-	62
-	-	-	-	(14,763)
(2,538)	-	-	-	(2,538)
-	(46)	(7)	-	(56)
(850)	618	114	10	(14,696)
94,583	618	692	2,443	260,841
-	-	-	-	107
(4,279)	-	-	(401)	(166,955)
90,304	618	692	2,042	93,993
(32,719)	77,215	6,561	11,973	113,800
\$ 57,585	\$ 77,833	\$ 7,253	\$ 14,015	\$ 207,793

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 17,862	\$ 333,644	\$ 38,094	\$ 4,486	\$ 11,050
Receipts from assessments	-	-	-	-	-
Receipts from grants and contracts	1	-	-	-	-
Receipts from settlement income	-	-	-	-	-
Payments to suppliers, prize winners, claimants, or insurance companies	(7,906)	(174,741)	(19,028)	(3,135)	(7,084)
Payments to employees	(6,189)	(5,906)	(19,568)	(1,565)	(4,233)
Other receipts	258	15,394	-	657	963
Other payments	(3,114)	-	-	-	-
Net Cash Provided (Used) by Operating Activities	912	168,391	(502)	443	696
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Distributions	-	(14,763)	-	-	-
Interest paid on loan due to U.S. Government	-	-	-	-	-
Transfers to other Funds	-	(184,683)	(1,303)	(34)	(80)
Net Cash (Used) by Non-capital Financing Activities	-	(199,446)	(1,303)	(34)	(80)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	-	-	30	-	-
Acquisition and construction of capital assets	-	(61)	(799)	-	(370)
Net Cash (Used) by Capital and Related Financing Activities	-	(61)	(769)	-	(370)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends from investments	10	94	35	25	11
Change in cash collateral received from securities lending transactions	-	-	-	-	-
Net Cash Provided by Investing Activities	10	94	35	25	11
Net Increase (Decrease) in Cash and Cash Equivalents	922	(31,022)	(2,539)	434	257
Cash and Cash Equivalents - Beginning	3,253	76,001	7,905	2,858	2,905
Cash and Cash Equivalents - Ending	\$ 4,175	\$ 44,979	\$ 5,366	\$ 3,292	\$ 3,162
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 1	\$ 175,516	\$ 1,175	\$ 379	\$ 22
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	355	275	623	7	633
Provision for uncollectible accounts	-	-	13	-	-
Miscellaneous income	-	-	-	-	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	12	(1,227)	90	22	(31)
Decrease in due from U.S. Government	1	-	-	-	-
(Increase) decrease in due from other Funds	(1)	-	-	-	-
(Increase) decrease in inventories, at cost	572	(2,009)	(1,110)	62	-
(Increase) decrease in other assets	(94)	(558)	(7)	42	(27)
Increase (decrease) in accounts payable	61	(2,193)	(1,369)	(24)	50
Increase (decrease) in accrued liabilities	(22)	(1,413)	82	6	11
(Decrease) in due to U.S. Government	-	-	-	-	-
(Decrease) in due to other Funds	-	-	-	-	-
(Decrease) in due to others	-	-	-	-	-
Increase (decrease) in unearned revenue	29	-	-	(43)	31
Increase (decrease) in other liabilities	(2)	-	1	(8)	7
Net Cash Provided (Used) by Operating Activities	\$ 912	\$ 168,391	\$ (502)	\$ 443	\$ 696
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES					
Contribution of capital assets from other Funds	\$ -	\$ -	\$ -	\$ -	\$ 107
(Loss) on disposal of capital assets, net	-	-	(9)	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ -	\$ -	\$ (9)	\$ -	\$ 107

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
\$ -	\$ -	\$ 8,748	\$ 31,383	\$ 445,267
458,133	-	-	-	458,133
84,094	-	-	-	84,095
-	-	62	-	62
(447,350)	-	(10,836)	(9,351)	(679,431)
-	-	(642)	(18,942)	(57,045)
-	-	-	73	17,345
(91,262)	-	-	-	(94,376)
3,615	-	(2,668)	3,163	174,050
-	-	-	-	(14,763)
(7,751)	-	-	-	(7,751)
(4,254)	-	-	(401)	(190,755)
(12,005)	-	-	(401)	(213,269)
-	-	-	-	30
-	-	(7)	(106)	(1,343)
-	-	(7)	(106)	(1,313)
1,690	662	59	10	2,596
-	(44)	-	-	(44)
1,690	618	59	10	2,552
(6,700)	618	(2,616)	2,666	(37,980)
14,944	77,215	9,873	1,914	196,868
\$ 8,244	\$ 77,833	\$ 7,257	\$ 4,580	\$ 158,888
\$ 95,433	\$ -	\$ 578	\$ 2,433	\$ 275,537
-	-	1	338	2,232
-	-	-	-	13
-	-	62	-	62
9,498	-	-	(313)	8,051
-	-	-	-	1
-	-	-	44	43
-	-	-	-	(2,485)
-	-	-	-	(644)
-	-	(25)	50	(3,450)
4,399	-	(229)	85	2,919
(98,444)	-	-	-	(98,444)
-	-	-	(2)	(2)
(7,271)	-	-	-	(7,271)
-	-	(2,999)	-	(2,982)
-	-	(56)	528	470
\$ 3,615	\$ -	\$ (2,668)	\$ 3,163	\$ 174,050
\$ -	\$ -	\$ -	\$ -	\$ 107
-	-	-	-	(9)
\$ -	\$ -	\$ -	\$ -	\$ 98



INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided by one State department or agency to other State departments or agencies on a cost-reimbursement basis.

The Risk Management Fund provides insurance coverage to all State agencies using an optimal combination of self-insurance and private excess insurance. It includes the Workers' Compensation section that receives monies from State agencies and uses these monies to pay for insurance and risk management services including loss control services and self-insured liability losses.

The Transportation Equipment Fund administers the purchase, storage and distribution of supplies, equipment and furniture for other Department of Transportation Funds.

The Employee Benefits Fund (HITF) administers the State's benefits program available to State employees and retirees.

The Telecommunication Fund receives monies from State agencies for services related to administering the State's contracts for the installation and maintenance of telecommunications equipment through the Telecommunications Program Office.

The Automation Operations Fund receives monies from State agencies for services related to the implementation and operation of automation programs throughout the State.

The Retiree Accumulated Sick Leave Fund accounts for monies paid out to retirees for their accumulated sick leave.

The Motor Pool Fund receives monies from State agencies for the use of State vehicles and uses these monies for operation of the State Motor Pool.

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
ASSETS				
Current Assets:				
Cash and pooled investments with				
State Treasurer	\$ 74,193	\$ -	\$ 333,561	\$ 894
Receivables, net of allowances:				
Other	40	-	9,637	149
Due from U.S. Government	-	-	3,600	-
Due from other Funds	5	-	1	-
Inventories, at cost	-	3,122	-	-
Other current assets	4,202	-	8	-
Total Current Assets	<u>78,440</u>	<u>3,122</u>	<u>346,807</u>	<u>1,043</u>
Noncurrent Assets:				
Restricted assets:				
Cash and pooled investments with				
State Treasurer	-	975	-	-
Capital assets:				
Land and other non-depreciable	-	-	-	-
Buildings, equipment, and other depreciable, net of accumulated depreciation	93	66,447	23	52
Total Noncurrent Assets	<u>93</u>	<u>67,422</u>	<u>23</u>	<u>52</u>
Total Assets	<u>78,533</u>	<u>70,544</u>	<u>346,830</u>	<u>1,095</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	2,141	-	132,096	226
Accrued liabilities	281	297	53	25
Due to other Funds	7	-	7	-
Current portion of accrued insurance losses	59,786	-	-	-
Current portion of other long-term liabilities	705	577	160	66
Total Current Liabilities	<u>62,920</u>	<u>874</u>	<u>132,316</u>	<u>317</u>
Noncurrent Liabilities:				
Accrued insurance losses	369,543	-	-	-
Other long-term liabilities	-	229	-	-
Total Noncurrent Liabilities	<u>369,543</u>	<u>229</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>432,463</u>	<u>1,103</u>	<u>132,316</u>	<u>317</u>
NET POSITION				
Net investment in capital assets	93	66,447	23	52
Unrestricted (deficit)	(354,023)	2,994	214,491	726
Total Net Position	<u>\$ (353,930)</u>	<u>\$ 69,441</u>	<u>\$ 214,514</u>	<u>\$ 778</u>

AUTOMATION OPERATIONS	RETIREE ACCUMULATED SICK LEAVE	MOTOR POOL	TOTAL
\$ 14,048	\$ 2,803	\$ 612	\$ 426,111
970	-	425	11,221
-	-	-	3,600
2,155	-	670	2,831
-	-	51	3,173
1,307	-	15	5,532
18,480	2,803	1,773	452,468
-	-	-	975
76	-	-	76
3,879	-	11,718	82,212
3,955	-	11,718	83,263
22,435	2,803	13,491	535,731
1,365	-	582	136,410
194	-	15	865
-	-	-	14
-	-	-	59,786
479	8,143	42	10,172
2,038	8,143	639	207,247
-	-	-	369,543
-	148,600	-	148,829
-	148,600	-	518,372
2,038	156,743	639	725,619
3,955	-	11,718	82,288
16,442	(153,940)	1,134	(272,176)
\$ 20,397	\$ (153,940)	\$ 12,852	\$ (189,888)

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET POSITION**
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
OPERATING REVENUES				
Sales and charges for services	\$ 103,733	\$ 27,326	\$ 823,774	\$ 1,347
Other	-	54	-	2
Total Operating Revenues	103,733	27,380	823,774	1,349
OPERATING EXPENSES				
Cost of sales and benefits	-	13,949	755,161	2
Personal services	12,950	13,389	2,603	1,010
Contractual services	18,900	200	1,286	339
Depreciation and amortization	41	10,080	5	525
Insurance	81,285	-	757	19
Other	1,482	859	299	452
Total Operating Expenses	114,658	38,477	760,111	2,347
Operating Income (Loss)	(10,925)	(11,097)	63,663	(998)
NON-OPERATING REVENUES				
Gain on sale of capital assets	-	26	-	5
Investment income	-	4	-	-
Other non-operating revenue	-	91	-	-
Total Non-Operating Revenues	-	121	-	5
Income (Loss) Before Contributions and Transfers	(10,925)	(10,976)	63,663	(993)
Capital grants and contributions	-	19,121	-	-
Transfers out	(2,454)	(192)	(73,761)	(52)
Change in Net Position	(13,379)	7,953	(10,098)	(1,045)
Total Net Position - Beginning	(340,551)	61,488	224,612	1,823
Total Net Position - Ending	\$ (353,930)	\$ 69,441	\$ 214,514	\$ 778

AUTOMATION OPERATIONS	RETIREE		MOTOR POOL	TOTAL
	ACCUMULATED SICK LEAVE			
\$ 28,298	\$ 13,095	\$ 8,931	\$ 1,006,504	
-	-	-	56	
28,298	13,095	8,931	1,006,560	
5,975	14,941	5,101	795,129	
8,472	68	879	39,371	
1,802	4	148	22,679	
1,531	-	1,491	13,673	
368	-	511	82,940	
1,667	-	686	5,445	
19,815	15,013	8,816	959,237	
8,483	(1,918)	115	47,323	
5	-	-	36	
-	-	-	4	
-	-	221	312	
5	-	221	352	
8,488	(1,918)	336	47,675	
844	-	792	20,757	
(8,671)	(88)	(72)	(85,290)	
661	(2,006)	1,056	(16,858)	
19,736	(151,934)	11,796	(173,030)	
\$ 20,397	\$ (153,940)	\$ 12,852	\$ (189,888)	

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services / premiums	\$ 103,737	\$ 27,346	\$ 824,336	\$ 1,349
Payments to suppliers or insurance companies	(84,783)	(14,365)	(738,966)	(827)
Payments to employees	(12,470)	(13,339)	(2,642)	(997)
Payments to retirees	-	-	-	-
Other receipts	-	54	-	-
Net Cash Provided (Used) by Operating Activities	6,484	(304)	82,728	(475)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers to other Funds	(2,454)	(192)	(73,761)	(52)
Net Cash (Used) by Non-capital Financing Activities	(2,454)	(192)	(73,761)	(52)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	968	-	47
Receipts from insurance recoveries	-	90	-	-
Acquisition and construction of capital assets	-	(6)	(10)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	1,052	(10)	47
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends from investments	-	6	-	-
Net Cash Provided by Investing Activities	-	6	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	4,030	562	8,957	(480)
Cash and Cash Equivalents - Beginning	70,163	413	324,604	1,374
Cash and Cash Equivalents - Ending	\$ 74,193	\$ 975	\$ 333,561	\$ 894
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (10,925)	\$ (11,097)	\$ 63,663	\$ (998)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	41	10,080	5	525
Miscellaneous income	-	-	-	-
Net changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	-	20	(1,240)	-
Decrease in due from U.S. Government	-	-	1,800	-
(Increase) decrease in due from other Funds	4	-	2	-
(Increase) decrease in inventories, at cost	-	567	-	-
(Increase) decrease in other assets	(109)	-	4	-
Increase (decrease) in accounts payable	(1,384)	(4)	18,529	105
Increase (decrease) in accrued liabilities	51	63	-	8
Increase (decrease) in due to other Funds	(15,337)	-	4	(120)
(Decrease) in unearned revenues	-	-	-	-
Increase in accrued insurance losses	33,714	-	-	-
Increase (decrease) in other liabilities	429	67	(39)	5
Net Cash Provided (Used) by Operating Activities	6,484	(304)	82,728	(475)
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES				
Contribution of capital assets from other Funds	\$ -	\$ 19,121	\$ -	\$ -
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ -	\$ 19,121	\$ -	\$ -

AUTOMATION OPERATIONS	RETIREE ACCUMULATED SICK LEAVE	MOTOR POOL	TOTAL
\$ 29,045	\$ 13,095	\$ 8,889	\$ 1,007,797
(8,645)	(4)	(6,273)	(853,863)
(8,444)	(68)	(891)	(38,851)
-	(12,172)	-	(12,172)
-	-	221	275
<u>11,956</u>	<u>851</u>	<u>1,946</u>	<u>103,186</u>

<u>(8,671)</u>	<u>(88)</u>	<u>(72)</u>	<u>(85,290)</u>
<u>(8,671)</u>	<u>(88)</u>	<u>(72)</u>	<u>(85,290)</u>

109	-	221	1,345
-	-	-	90
<u>(76)</u>	<u>-</u>	<u>(1,951)</u>	<u>(2,043)</u>
<u>33</u>	<u>-</u>	<u>(1,730)</u>	<u>(608)</u>

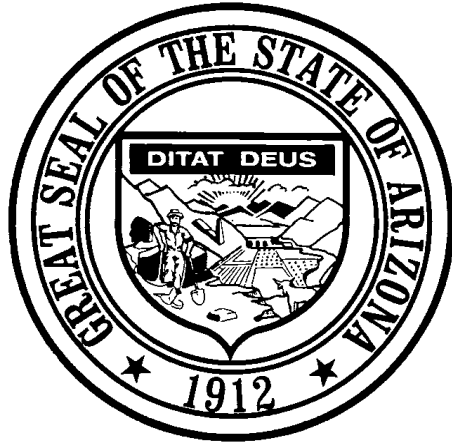
<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>

3,318	763	144	17,294
<u>10,730</u>	<u>2,040</u>	<u>468</u>	<u>409,792</u>
<u>\$ 14,048</u>	<u>\$ 2,803</u>	<u>\$ 612</u>	<u>\$ 427,086</u>

\$ 8,483	\$ (1,918)	\$ 115	\$ 47,323
1,531	-	1,491	13,673
-	-	221	221
649	-	13	(558)
-	-	-	1,800
111	-	(55)	62
-	-	(18)	549
141	-	3	39
1,030	-	207	18,483
37	-	(2)	157
(4)	-	(19)	(15,476)
(13)	-	-	(13)
-	-	-	33,714
(9)	2,769	(10)	3,212
<u>\$ 11,956</u>	<u>\$ 851</u>	<u>\$ 1,946</u>	<u>\$ 103,186</u>

<u>\$ 844</u>	<u>\$ -</u>	<u>\$ 792</u>	<u>\$ 20,757</u>
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<u>\$ 844</u>	<u>\$ -</u>	<u>\$ 792</u>	<u>\$ 20,757</u>
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PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

Pension Trust Funds account for transactions of the four public employee retirement systems for which the State acts as trustee.

The Arizona State Retirement System (ASRS) is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions.

The Public Safety Personnel Retirement System (PSPRS) is an agent multiple-employer pension system that benefits fire fighters and police officers employed by the State and its political subdivisions.

The Elected Officials' Retirement Plan (EORP) is a cost-sharing, multiple-employer pension plan that benefits all elected State and county officials and judges and certain elected city officials.

The Corrections Officer Retirement Plan (CORP) is an agent multiple-employer pension plan that benefits town, city and county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections.

The Administrative Office of the Courts Probation Officers (AOC) is a cost-sharing, multiple-employer pension plan within CORP that benefits county probation officers.

Other Employee Benefit Trust Funds account for health insurance premium subsidies paid by the ASRS, PSPRS, EORP, CORP, and AOC, as well as long-term disability benefits paid by the ASRS to State employees and employees of other governmental entities participating in the plans.

The ASRS Health Benefit Supplement Fund is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

The ASRS Long-Term Disability Fund is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for long term disability benefits to eligible participants.

The PSPRS Health Benefit Supplement Fund is a benefit agent multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

The EORP Health Benefit Supplement Fund is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

The CORP Health Benefit Supplement Fund is a benefit agent multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

The AOC Health Benefit Supplement Fund is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	PENSION TRUST FUNDS				
	ASRS	PSPRS	EORP	CORP	AOC
ASSETS					
Cash	\$ 2,365	\$ 268,644	\$ 12,669	\$ 44,047	\$ 11,834
Receivables, net of allowances:					
Accrued interest and dividends	60,474	5,397	285	1,080	290
Securities sold	40,792	32,652	1,726	6,531	1,755
Forward contracts receivable	419,880	-	-	-	-
Contributions	69,136	20,001	664	1,090	849
Court fees	-	-	683	-	-
Due from other Funds	612	-	-	-	-
Other	545	5,147	1,025	10	3
Total receivables	591,439	63,197	4,383	8,711	2,897
Investments, at fair value:					
Temporary investments	1,621,617	-	-	-	-
Fixed income securities	6,671,668	556,947	29,436	111,402	29,931
Corporate stocks	20,122,143	1,793,970	94,816	358,836	96,410
Global tactical asset allocation	3,327,760	538,588	28,466	107,730	28,944
Real assets	-	403,746	21,339	80,759	21,698
Real estate	1,985,698	634,687	33,545	126,952	34,109
Private equity	-	785,759	41,529	157,170	42,228
Opportunistic investments	-	519,008	27,431	103,814	27,892
Collateral investment pool	14,784	425,445	22,486	85,099	22,864
Other investments	101,399	435,846	23,035	87,181	23,423
Total investments	33,845,069	6,093,996	322,083	1,218,943	327,499
Property and equipment, net of accumulated depreciation	-	3,488	245	490	132
Total Assets	34,438,873	6,429,325	339,380	1,272,191	342,362
LIABILITIES					
Accounts payable and other current liabilities	27,165	47,364	1,481	3,167	851
Payable for securities purchased	293,994	20,992	1,109	4,199	1,128
Obligation under securities loan agreements	14,784	425,445	22,486	85,099	22,864
Forward contracts payable	399,465	-	-	-	-
Due to other Funds	9,760	-	-	-	-
Total Liabilities	745,168	493,801	25,076	92,465	24,843
NET POSITION					
Held in Trust for:					
Pension benefits	33,693,705	5,935,524	314,304	1,179,726	317,519
Other post-employment benefits	-	-	-	-	-
Total Net Position	\$ 33,693,705	\$ 5,935,524	\$ 314,304	\$ 1,179,726	\$ 317,519

OTHER EMPLOYEE BENEFIT TRUST FUNDS

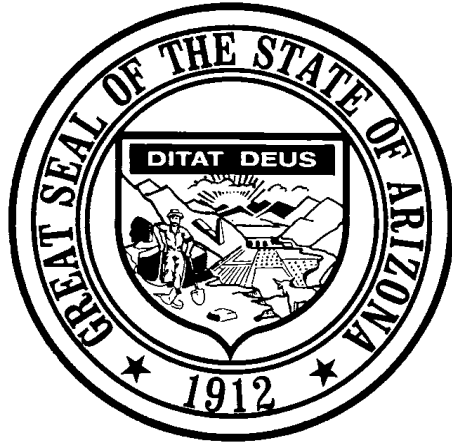
ASRS HEALTH BENEFIT SUPPLEMENT FUND	ASRS LONG-TERM DISABILITY FUND	PSPRS HEALTH BENEFIT SUPPLEMENT FUND	EORP HEALTH BENEFIT SUPPLEMENT FUND	CORP HEALTH BENEFIT SUPPLEMENT FUND	AOC HEALTH BENEFIT SUPPLEMENT FUND	TOTAL
\$ 87	\$ 250	\$ 10,703	\$ 839	\$ 3,503	\$ 231	\$ 355,172
2,641	-	254	20	83	5	70,529
1,731	-	1,605	126	525	35	87,478
18,308	-	-	-	-	-	438,188
1,087	869	718	29	47	42	94,532
-	-	-	-	-	-	683
6,647	2,501	-	-	-	-	9,760
29,852	3,244	11	1	4	-	39,842
60,266	6,614	2,588	176	659	82	741,012
125,339	2,835	-	-	-	-	1,749,791
291,584	60,162	27,377	2,146	8,959	592	7,790,204
874,875	186,242	88,183	6,912	28,859	1,905	23,653,151
143,613	-	26,474	2,075	8,664	572	4,212,886
-	-	19,846	1,556	6,495	429	555,868
87,405	22,382	31,198	2,445	10,210	674	2,969,305
-	-	38,624	3,027	12,640	835	1,081,812
-	-	25,512	2,000	8,349	551	714,557
643	-	20,913	1,639	6,844	452	601,169
4,442	7,311	21,424	1,678	7,012	463	713,214
1,527,901	278,932	299,551	23,478	98,032	6,473	44,041,957
-	-	-	-	-	-	4,355
1,588,254	285,796	312,842	24,493	102,194	6,786	45,142,496
1,274	280	-	-	-	-	81,582
12,676	-	1,032	81	338	22	335,571
643	-	20,913	1,639	6,844	452	601,169
17,419	-	-	-	-	-	416,884
-	-	-	-	-	-	9,760
32,012	280	21,945	1,720	7,182	474	1,444,966
-	-	-	-	-	-	41,440,778
1,556,242	285,516	290,897	22,773	95,012	6,312	2,256,752
\$ 1,556,242	\$ 285,516	\$ 290,897	\$ 22,773	\$ 95,012	\$ 6,312	\$ 43,697,530

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	PENSION TRUST FUNDS				
	ASRS	PSPRS	EORP	CORP	AOC
ADDITIONS:					
Member contributions	\$ 995,284	\$ 141,066	\$ 8,938	\$ 42,697	\$ 9,039
Employer contributions	965,969	413,846	16,287	62,246	15,552
Non-employer entity contributions	-	-	5,000	-	-
Member purchase of service credit	32,441	10,957	51	373	93
Court fees	-	-	8,541	-	-
Investment income:					
Net increase in fair value of investments	5,114,686	736,692	39,564	148,194	38,129
Interest income	185,226	7,074	379	1,423	366
Dividends	338,194	41,812	2,237	8,414	2,165
Other investment income	17,949	55,200	2,956	11,094	2,854
Securities lending income	2,196	1,937	103	390	100
Total investment income	5,658,251	842,715	45,239	169,515	43,614
Less investment expenses:					
Investment activity expenses	143,731	118,998	6,319	24,023	6,181
Securities lending expenses	274	290	15	58	15
Net investment income	5,514,246	723,427	38,905	145,434	37,418
Other additions	1,044	775	116	44	253
Total Additions	7,508,984	1,290,071	77,838	250,794	62,355
DEDUCTIONS:					
Retirement, disability, and survivor benefits	2,566,372	612,105	53,984	91,319	15,768
Health insurance subsidy	-	-	-	-	-
Refunds to withdrawing members, including interest	246,201	14,435	155	29,132	1,315
Administrative expense	26,107	5,826	316	1,143	294
Other deductions	2,029	50	23	437	61
Total Deductions	2,840,709	632,416	54,478	122,031	17,438
Change in net position held in trust for:					
Pension benefits	4,668,275	657,655	23,360	128,763	44,917
Other post-employment benefits	-	-	-	-	-
Net Position - Beginning	29,025,430	5,277,869	290,944	1,050,963	272,602
Net Position - Ending	\$ 33,693,705	\$ 5,935,524	\$ 314,304	\$ 1,179,726	\$ 317,519

OTHER EMPLOYEE BENEFIT TRUST FUNDS

ASRS HEALTH BENEFIT SUPPLEMENT FUND	ASRS LONG-TERM DISABILITY FUND	PSPRS HEALTH BENEFIT SUPPLEMENT FUND	EORP HEALTH BENEFIT SUPPLEMENT FUND	CORP HEALTH BENEFIT SUPPLEMENT FUND	AOC HEALTH BENEFIT SUPPLEMENT FUND	TOTAL
\$ -	\$ 21,151	\$ -	\$ -	\$ -	\$ -	\$ 1,218,175
53,405	21,628	19,534	1,072	5,477	1,204	1,576,220
-	-	-	-	-	-	5,000
-	-	-	-	-	-	43,915
-	-	-	-	-	-	8,541
223,003	45,231	34,372	2,708	11,186	701	6,394,466
8,040	-	330	26	107	7	202,978
14,703	-	1,951	153	635	40	410,304
779	-	2,575	202	837	52	94,498
95	-	90	7	29	2	4,949
246,620	45,231	39,318	3,096	12,794	802	7,107,195
6,071	281	5,552	432	1,813	114	313,515
11	-	13	1	4	-	681
240,538	44,950	33,753	2,663	10,977	688	6,792,999
29,848	-	-	-	-	-	32,080
323,791	87,729	53,287	3,735	16,454	1,892	9,676,930
101,746	62,044	-	-	-	-	3,503,338
-	-	13,578	951	2,728	309	17,566
-	-	-	-	-	-	291,238
1,137	2,542	-	-	-	-	37,365
-	247	-	-	-	-	2,847
102,883	64,833	13,578	951	2,728	309	3,852,354
-	-	-	-	-	-	5,522,970
220,908	22,896	39,709	2,784	13,726	1,583	301,606
1,335,334	262,620	251,188	19,989	81,286	4,729	37,872,954
\$ 1,556,242	\$ 285,516	\$ 290,897	\$ 22,773	\$ 95,012	\$ 6,312	\$ 43,697,530



INVESTMENT TRUST FUNDS

Investment Trust Funds account for assets held by the State Treasurer in a trustee capacity for local governments and political subdivisions of the State of Arizona which have elected to invest cash with the State Treasurer's Office.

Central Arizona Water Conservation District is an Investment Trust Account composed of corporate debt, money market mutual funds, and United States Government securities. The Central Arizona Water Conservation District is the only participant in the account.

Local Government Investment Pool is an Investment Trust Account composed of corporate debt, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

Local Government Investment Pool – Medium-Term is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

Local Government Investment Pool – FF&C is an Investment Trust Account composed of corporate notes, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

Local Government Investment Pool – Medium-Term FF&C is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

Lehman Brothers Pool is an Investment Trust Account composed of the Local Government Investment Pool's share of the Lehman Brothers bond value that was transferred to this pool due to Lehman Brothers filing for Chapter 11 bankruptcy. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities held by the Local Government Investment Pool.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
JUNE 30, 2014
(Expressed in Thousands)

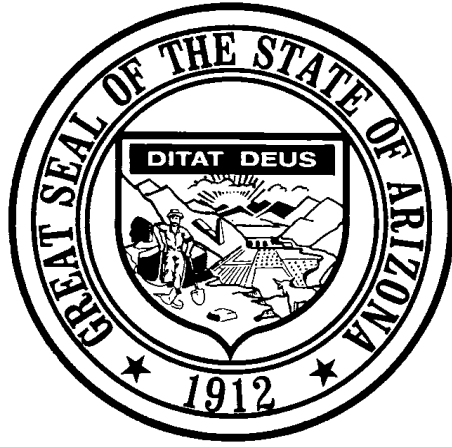
	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL - FF&C	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM FF&C
ASSETS					
Cash and pooled investments with State Treasurer	\$ -	\$ 19,000	\$ -	\$ 2,000	\$ -
Receivables, net of allowances: Accrued interest and dividends	1,088	453	619	519	358
Investments, at fair value:					
Fixed income securities	301,130	1,060,944	254,201	934,704	164,856
Collateral investment pool	5,150	86	11,479	-	-
Total investments	<u>306,280</u>	<u>1,061,030</u>	<u>265,680</u>	<u>934,704</u>	<u>164,856</u>
Total Assets	<u>307,368</u>	<u>1,080,483</u>	<u>266,299</u>	<u>937,223</u>	<u>165,214</u>
LIABILITIES					
Management fee payable	13	58	11	47	8
Obligations under securities loan agreements	<u>5,150</u>	<u>86</u>	<u>11,479</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>5,163</u>	<u>144</u>	<u>11,490</u>	<u>47</u>	<u>8</u>
NET POSITION					
Held in trust for pool participants	<u>\$ 302,205</u>	<u>\$ 1,080,339</u>	<u>\$ 254,809</u>	<u>\$ 937,176</u>	<u>\$ 165,206</u>
Net position consist of:					
Participant shares outstanding	299,310	1,080,339	246,505	937,176	164,085
Participants' net position value (net position/shares outstanding)	\$ 1.01	\$ 1.00	\$ 1.03	\$ 1.00	\$ 1.01

LEHMAN BROTHERS	
POOL	TOTAL
<hr/>	
\$ -	\$ 21,000
-	3,037
4,475	2,720,310
-	16,715
<hr/> 4,475	<hr/> 2,737,025
<hr/> 4,475	<hr/> 2,761,062
-	137
<hr/> -	<hr/> 16,715
<hr/> -	<hr/> 16,852
<hr/>	<hr/>
<u>\$ 4,475</u>	<u>\$ 2,744,210</u>
23,735	2,751,150
\$ 0.19	

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL - FF&C	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM FF&C
ADDITIONS:					
Investment income:					
Net increase (decrease) in fair value of investments	\$ (93)	\$ 39	\$ 982	\$ 6	\$ 333
Interest income	5,400	2,102	3,548	979	2,447
Securities lending income	15	1	14	153	4
Total investment income	5,322	2,142	4,544	1,138	2,784
Less: Investment activity expenses					
Investment activity expenses	159	707	137	538	98
Securities lending expenses	7	-	7	77	2
Net investment income	5,156	1,435	4,400	523	2,684
Capital share and individual account transactions:					
Shares sold	35,336	2,590,664	55,317	1,666,128	5,582
Reinvested interest income	5,414	1,403	2,866	500	1,648
Shares redeemed	(25,510)	(2,678,445)	(47,216)	(1,818,401)	(19,531)
Transfers in (out)	-	3,962	-	-	-
Net capital share and individual account transactions	15,240	(82,416)	10,967	(151,773)	(12,301)
Total Additions	20,396	(80,981)	15,367	(151,250)	(9,617)
DEDUCTIONS:					
Dividends to investors	5,156	1,435	4,400	523	2,684
Total Deductions	5,156	1,435	4,400	523	2,684
Change in net position held in trust for pool participants	15,240	(82,416)	10,967	(151,773)	(12,301)
Net Position - Beginning	286,965	1,162,755	243,842	1,088,949	177,507
Net Position - Ending	\$ 302,205	\$ 1,080,339	\$ 254,809	\$ 937,176	\$ 165,206

LEHMAN BROTHERS			
POOL		TOTAL	
\$	1,751	\$	3,018
	-		14,476
	-		187
	1,751		17,681
	-		1,639
	-		93
	1,751		15,949
	-		4,353,027
	-		11,831
	-		(4,589,103)
	(3,962)		-
	(3,962)		(224,245)
	(2,211)		(208,296)
	-		14,198
	-		14,198
	(2,211)		(222,494)
	6,686		2,966,704
\$	4,475	\$	2,744,210



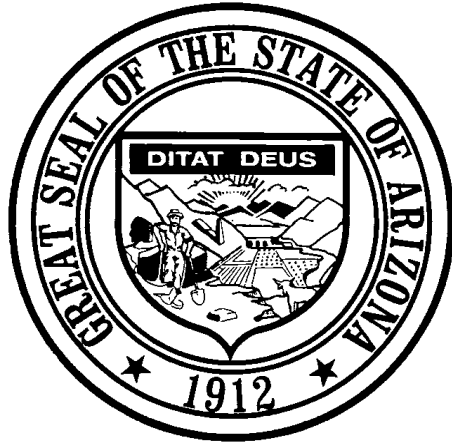
AGENCY FUNDS

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, where the State acts as an agent for distribution to other governmental units or organizations.

The Treasurer Custodial Securities Fund consists of securities held by the State Treasurer for various State agencies as required by statute.

The Other Treasurer Funds account for other various deposits that are required to be made by other governmental units or organizations with the State Treasurer.

The Other Funds consist of various funds where the State acts as an agent for distribution to other governmental units or organizations.



STATE OF ARIZONA
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 AGENCY FUNDS
 JUNE 30, 2014
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
ASSETS				
Cash	\$ -	\$ -	\$ 50,315	\$ 50,315
Cash and pooled investments with State Treasurer	-	11,685	58,195	69,880
Short-term investments	-	-	8,236	8,236
Receivables, net of allowances:				
Accrued interest	-	-	1	1
Other	-	-	2	2
Due from others	-	-	82,589	82,589
Custodial securities in safekeeping	3,805,147	-	41,343	3,846,490
Other assets	-	-	1,658	1,658
Total Assets	<u>\$ 3,805,147</u>	<u>\$ 11,685</u>	<u>\$ 242,339</u>	<u>\$ 4,059,171</u>
LIABILITIES				
Due to local governments	\$ -	\$ 48	\$ 964	\$ 1,012
Due to others	3,805,147	11,637	241,375	4,058,159
Total Liabilities	<u>\$ 3,805,147</u>	<u>\$ 11,685</u>	<u>\$ 242,339</u>	<u>\$ 4,059,171</u>

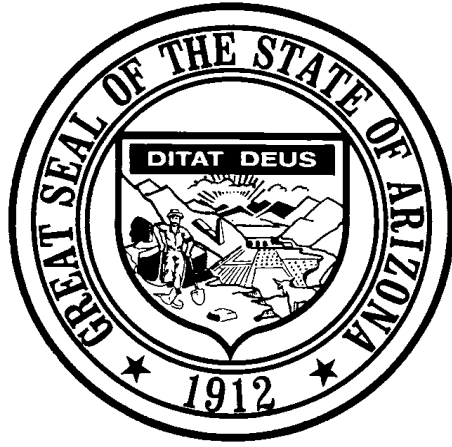
STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Thousands)

	BALANCE JULY 1, 2013	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2014
TREASURER CUSTODIAL SECURITIES FUND				
Assets:				
Custodial securities in safekeeping	\$ 3,560,332	\$ 6,173,677	\$ 5,928,862	\$ 3,805,147
Total Assets	<u>\$ 3,560,332</u>	<u>\$ 6,173,677</u>	<u>\$ 5,928,862</u>	<u>\$ 3,805,147</u>
Liabilities:				
Due to others	\$ 3,560,332	\$ 6,173,677	\$ 5,928,862	\$ 3,805,147
Total Liabilities	<u>\$ 3,560,332</u>	<u>\$ 6,173,677</u>	<u>\$ 5,928,862</u>	<u>\$ 3,805,147</u>
OTHER TREASURER FUNDS				
Assets:				
Cash and pooled investments with State Treasurer	\$ 15,001	\$ 108,586	\$ 111,902	\$ 11,685
Total Assets	<u>\$ 15,001</u>	<u>\$ 108,586</u>	<u>\$ 111,902</u>	<u>\$ 11,685</u>
Liabilities:				
Due to local governments	\$ 48	\$ 93,145	\$ 93,145	\$ 48
Due to others	14,953	24,998	28,314	11,637
Total Liabilities	<u>\$ 15,001</u>	<u>\$ 118,143</u>	<u>\$ 121,459</u>	<u>\$ 11,685</u>
OTHER FUNDS				
Assets:				
Cash	\$ 53,684	\$ 790,520	\$ 793,889	\$ 50,315
Cash and pooled investments with State Treasurer	213,836	1,802,067	1,957,708	58,195
Short-term investments	3,392	8,236	3,392	8,236
Receivables, net of allowances:				
Accrued interest	1	-	-	1
Other	2	2	2	2
Due from others	82,552	82,589	82,552	82,589
Custodial securities in safekeeping	39,905	41,343	39,905	41,343
Other assets	1,782	1,658	1,782	1,658
Total Assets	<u>\$ 395,154</u>	<u>\$ 2,726,415</u>	<u>\$ 2,879,230</u>	<u>\$ 242,339</u>
Liabilities:				
Due to local governments	\$ 153,475	\$ 2,512,876	\$ 2,665,387	\$ 964
Due to others	241,679	1,119,762	1,120,066	241,375
Total Liabilities	<u>\$ 395,154</u>	<u>\$ 3,632,638</u>	<u>\$ 3,785,453</u>	<u>\$ 242,339</u>

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Expressed in Thousands)

	BALANCE JULY 1, 2013	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2014
COMBINED TOTAL ALL AGENCY FUNDS				
Assets:				
Cash	\$ 53,684	\$ 790,520	\$ 793,889	\$ 50,315
Cash and pooled investments with State Treasurer	228,837	1,910,653	2,069,610	69,880
Short-term investments	3,392	8,236	3,392	8,236
Receivables, net of allowances:				
Accrued interest	1	-	-	1
Other	2	2	2	2
Due from others	82,552	82,589	82,552	82,589
Custodial securities in safekeeping	3,600,237	6,215,020	5,968,767	3,846,490
Other assets	1,782	1,658	1,782	1,658
Total Assets	<u>\$ 3,970,487</u>	<u>\$ 9,008,678</u>	<u>\$ 8,919,994</u>	<u>\$ 4,059,171</u>
Liabilities:				
Due to local governments	\$ 153,523	\$ 2,606,021	\$ 2,758,532	\$ 1,012
Due to others	3,816,964	7,318,437	7,077,242	4,058,159
Total Liabilities	<u>\$ 3,970,487</u>	<u>\$ 9,924,458</u>	<u>\$ 9,835,774</u>	<u>\$ 4,059,171</u>



NON-MAJOR COMPONENT UNITS

Component units are legally separate entities for which the State is considered to be financially accountable. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

The Arizona Power Authority purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws.

The Rio Nuevo Multipurpose Facilities District (Rio Nuevo) utilizes tax incremental financing to help develop multipurpose facilities in the downtown Tucson area.

The Greater Arizona Development Authority provides cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects.

The Arizona Commerce Authority is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State's economic development objectives.

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
NON-MAJOR COMPONENT UNITS
JUNE 30, 2014
(Expressed in Thousands)

	ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL
ASSETS					
Current Assets:					
Cash	\$ -	\$ 13,926	\$ -	\$ 9,945	\$ 23,871
Cash and pooled investments with State Treasurer	5,908	-	1,306	120,780	127,994
Collateral investment pool	-	-	-	2,452	2,452
Restricted investments held by trustee	5,343	-	-	-	5,343
Receivables, net of allowances:					
Taxes	-	2,672	-	-	2,672
Interest	-	-	15	-	15
Loans and notes	-	-	-	1,673	1,673
Other	3,151	45	-	887	4,083
Other current assets	922	1,032	-	440	2,394
Total Current Assets	15,324	17,675	1,321	136,177	170,497
Noncurrent Assets:					
Restricted assets:					
Cash and pooled investments with State Treasurer	-	-	11,965	-	11,965
Cash held by trustee	-	17,342	-	-	17,342
Investments held by trustee	7,757	-	-	-	7,757
Loans and notes receivable, net of allowances	-	16,482	-	6,657	23,139
Other noncurrent assets	599	-	-	7	606
Capital assets:					
Land and other non-depreciable	-	11,277	-	-	11,277
Buildings, equipment, and other depreciable, net of accumulated depreciation	93	25,155	-	758	26,006
Total Noncurrent Assets	8,449	70,256	11,965	7,422	98,092
Total Assets	23,773	87,931	13,286	143,599	268,589
DEFERRED OUTFLOWS OF RESOURCES	33,791	-	-	-	33,791
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	2,583	8,332	-	731	11,646
Accrued liabilities	613	30	7	-	650
Obligations under securities loan agreements	-	-	-	2,452	2,452
Current portion of long-term debt	5,330	4,830	-	-	10,160
Total Current Liabilities	8,526	13,192	7	3,183	24,908
Noncurrent Liabilities:					
Long-term debt	44,397	72,611	-	-	117,008
Total Noncurrent Liabilities	44,397	72,611	-	-	117,008
Total Liabilities	52,923	85,803	7	3,183	141,916
NET POSITION					
Net investment in capital assets	93	33,178	-	758	34,029
Restricted for:					
Debt service	13,100	10,254	11,965	-	35,319
Loans and other financial assistance	-	-	-	58,593	58,593
Other	-	-	-	22,596	22,596
Unrestricted	(8,552)	(41,304)	1,314	58,469	9,927
Total Net Position	\$ 4,641	\$ 2,128	\$ 13,279	\$ 140,416	\$ 160,464

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STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

		PROGRAM REVENUES	
		CHARGES FOR	OPERATING
	EXPENSES	SERVICES	GRANTS AND
<u>FUNCTIONS/PROGRAMS</u>			CONTRIBUTIONS
Arizona Power Authority	\$ 28,411	\$ 27,744	\$ -
Rio Nuevo	6,687	1,376	-
Greater Arizona Development Authority	90	-	-
Arizona Commerce Authority	24,959	844	8,072
Total	<u>\$ 60,147</u>	<u>\$ 29,964</u>	<u>\$ 8,072</u>

General Revenues:

Taxes:

Sales

Other

Unrestricted investment earnings

Unrestricted grants and contributions

Payments from State of Arizona

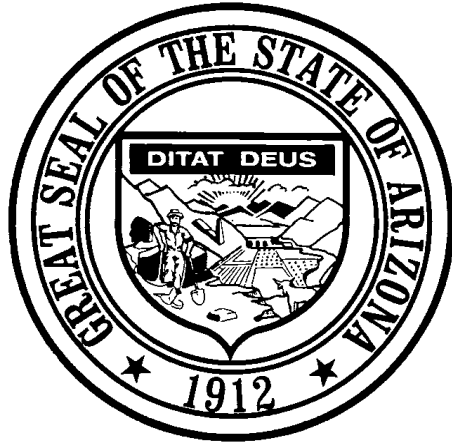
Miscellaneous

Change in Net Position

Net Position - Beginning, as restated

Net Position - Ending

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION					
ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL	
\$ (667)	\$ -	\$ -	\$ -	\$ (667)	
-	(5,311)	-	-	(5,311)	
-	-	(90)	-	(90)	
-	-	-	(16,043)	(16,043)	
-	9,117	-	-	9,117	
-	-	-	12,637	12,637	
8	54	210	997	1,269	
-	-	-	57	57	
-	-	-	36,924	36,924	
17	-	-	-	17	
(642)	3,860	120	34,572	37,910	
5,283	(1,732)	13,159	105,844	122,554	
\$ 4,641	\$ 2,128	\$ 13,279	\$ 140,416	\$ 160,464	



NON-MAJOR UNIVERSITIES – AFFILIATED COMPONENT UNITS

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate boards of directors that meet the criteria established in GASB, with the exception of Downtown Phoenix Student Housing, LLC, the ASU Preparatory Academy, Inc. (ASU Prep) – formerly known as the University Public Schools, Inc., and Campus Research Corporation (CRC). The Downtown Phoenix Student Housing, LLC is included due to the nature and significance of the financial arrangement that it has with the State and that the State believes would be misleading to exclude. The ASU Prep is included because of its close affiliation to the State and that the State believes it would be misleading to exclude. The CRC is included because the U of A approves the budget and can access its resources.

The Northern Arizona University Foundation receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the NAU for advancement of its mission.

Sun Angel Foundation receives funds primarily through donations, and contributes funds to the ASU for support of various athletic programs.

Sun Angel Endowment receives funds primarily through donations, with the annual earnings being used for support of various athletic programs at the ASU.

Arizona State University Research Park, Inc. manages a research park to promote and support research activities in coordination with the ASU.

The Arizona State University Alumni Association receives funds primarily through donations, dues, and affinity partners and contributes funds to the ASU for support of various programs.

Downtown Phoenix Student Housing, LLC provides facilities for use by students of the ASU.

The Arizona State University Preparatory Academy, Inc. participates with the ASU faculty and staff in implementing various educational innovations in the form of teaching methods, teacher preparation, curriculum, and educational research.

The University of Arizona Law College Association (Law Association) was established to provide support and financial assistance to the College of Law at the U of A. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships.

The University of Arizona Campus Research Corporation was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park and related properties.

The University of Arizona Alumni Association was established to serve the U of A and its graduates, former students, and friends by attracting, organizing and encouraging them to advance the U of A's missions - teaching, research, and public service.

The University of Arizona Eller Executive Education was established to advance the missions of the Eller College of Management and the U of A through noncredit, non-degree programs for business, government, and nonprofit leaders.

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2014
(Expressed in Thousands)

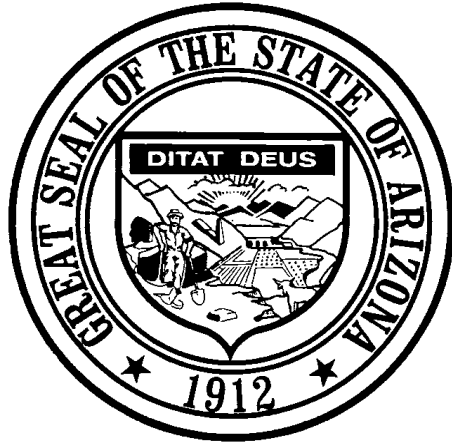
	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
ASSETS					
Cash and cash equivalent investments	\$ 1,290	\$ 2,849	\$ 396	\$ 1,817	\$ 253
Receivables:					
Pledges receivable	7,059	5,025	-	-	78
Other receivables	537	183	-	17,535	108
Total receivables	<u>7,596</u>	<u>5,208</u>	<u>-</u>	<u>17,535</u>	<u>186</u>
Investments:					
Investments in securities	129,783	-	8,545	1,291	16,357
Other investments	12,065	-	664	-	-
Total investments	<u>141,848</u>	<u>-</u>	<u>9,209</u>	<u>1,291</u>	<u>16,357</u>
Net direct financing leases	7,375	-	-	-	-
Property and equipment, net of accumulated depreciation	-	10	-	5,029	-
Other assets	964	172	31	2,554	42
Total Assets	<u>159,073</u>	<u>8,239</u>	<u>9,636</u>	<u>28,226</u>	<u>16,838</u>
LIABILITIES					
Accounts payable and accrued liabilities	146	443	5	130	106
Liability under endowment trust agreements	27,545	-	-	-	-
Long term debt	-	-	-	7,000	-
Deferred revenue	5,422	20	-	13,303	33
Other liabilities	2,001	-	4,000	1,546	12
Total Liabilities	<u>35,114</u>	<u>463</u>	<u>4,005</u>	<u>21,979</u>	<u>151</u>
NET ASSETS					
Permanently restricted	59,295	-	1,842	-	-
Temporarily restricted	52,378	7,287	841	-	302
Unrestricted (deficit)	12,286	489	2,948	6,247	16,385
Total Net Assets	<u>\$ 123,959</u>	<u>\$ 7,776</u>	<u>\$ 5,631</u>	<u>\$ 6,247</u>	<u>\$ 16,687</u>

DOWNTOWN PHOENIX STUDENT HOUSING	ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ 1,398	\$ 3,355	\$ 804	\$ 4,803	\$ 1,354	\$ 267	\$ 18,586
-	-	425	-	108	-	12,695
107	554	-	961	726	43	20,754
107	554	425	961	834	43	33,449
14,675	-	11,339	-	6,840	-	188,830
-	-	188	-	-	-	12,917
14,675	-	11,527	-	6,840	-	201,747
-	-	-	-	-	-	7,375
98,163	286	-	18,620	53	-	122,161
5,761	17	7	6,294	79	20	15,941
120,104	4,212	12,763	30,678	9,160	330	399,259
16,025	859	212	1,069	180	-	19,175
-	-	-	-	-	-	27,545
139,783	181	-	6,654	28	-	153,646
11	1,523	-	3,267	2,385	-	25,964
1,961	500	11	765	-	-	10,796
157,780	3,063	223	11,755	2,593	-	237,126
-	-	4,643	-	-	-	65,780
-	-	4,459	-	-	192	65,459
(37,676)	1,149	3,438	18,923	6,567	138	30,894
\$ (37,676)	\$ 1,149	\$ 12,540	\$ 18,923	\$ 6,567	\$ 330	\$ 162,133

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
REVENUES					
Contributions	\$ 13,468	\$ 15,068	\$ -	\$ -	\$ 2,649
Rental revenue	-	-	-	8,854	-
Sales and services	-	506	-	-	2,321
Net investment income	16,538	10	655	5	2,173
Grants and aid	-	-	-	-	-
Other revenues	4,001	30	-	67	71
Total Revenues	34,007	15,614	655	8,926	7,214
EXPENSES					
Program services:					
Payments to Universities	-	10,871	-	2,046	-
Leasing related expenses	-	-	-	-	-
Payments on behalf of Universities	-	-	-	-	-
Other program services	7,178	-	-	-	-
Management and general expenses	517	1,426	113	1,023	5,340
Fundraising expenses	3,074	-	-	-	-
Interest	-	-	173	328	-
Depreciation and amortization	1,176	-	-	411	-
Other expenses	-	1,343	-	151	194
Total Expenses	11,945	13,640	286	3,959	5,534
Increase (decrease) in Net Assets, before extraordinary items	22,062	1,974	369	4,967	1,680
Extraordinary items (Primarily equity transfers)	(472)	-	-	-	-
Increase (decrease) in Net Assets, after extraordinary items	21,590	1,974	369	4,967	1,680
Net Assets - Beginning, as restated	102,369	5,802	5,262	1,280	15,007
Net Assets - Ending	\$ 123,959	\$ 7,776	\$ 5,631	\$ 6,247	\$ 16,687

DOWNTOWN PHOENIX STUDENT HOUSING	ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ -	\$ 2,856	\$ 3,372	\$ -	\$ 223	\$ 23	\$ 37,659
10,017	-	-	11,681	-	-	30,552
-	1,083	-	-	1,107	1,065	6,082
19	1	1,374	8	785	-	21,568
-	11,846	-	-	-	-	11,846
153	417	289	646	2,474	200	8,348
10,189	16,203	5,035	12,335	4,589	1,288	116,055
-	-	-	-	-	166	13,083
-	-	-	10,330	-	-	10,330
-	-	1,576	-	3,032	726	5,334
-	-	-	-	-	-	7,178
2,797	14,699	82	1,283	710	116	28,106
-	-	88	-	190	-	3,352
7,235	-	-	-	-	-	7,736
4,807	-	-	-	-	-	6,394
817	-	-	-	-	-	2,505
15,656	14,699	1,746	11,613	3,932	1,008	84,018
(5,467)	1,504	3,289	722	657	280	32,037
-	-	-	-	-	-	(472)
(5,467)	1,504	3,289	722	657	280	31,565
(32,209)	(355)	9,251	18,201	5,910	50	130,568
<u>\$ (37,676)</u>	<u>\$ 1,149</u>	<u>\$ 12,540</u>	<u>\$ 18,923</u>	<u>\$ 6,567</u>	<u>\$ 330</u>	<u>\$ 162,133</u>



STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)

STATISTICAL SECTION

This part of the State of Arizona's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

Financial Trends – *Schedules 1 thru 4* contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

Revenue Capacity – *Schedules 5 thru 9* contain information to help the reader assess the State's most significant own-source revenues, the sales tax, and personal income tax.

Debt Capacity – *Schedules 10 thru 22* present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

Demographic and Economic Information – *Schedules 23 and 24* offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place and to help make comparisons over time and among other governments.

Operating Information – *Schedules 25 thru 27* contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

STATE OF ARIZONA
SCHEDULE 1
NET POSITION BY COMPONENT (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Fiscal Year				
	2014	2013, as restated	2012, as restated	2011	2010
GOVERNMENTAL ACTIVITIES:					
Net investment in capital assets	\$ 18,027,844	\$ 17,410,055	\$ 16,940,512	\$ 16,326,569	\$ 15,738,121
Restricted (3)	6,829,299	6,116,083	5,447,576	5,125,527	4,648,280
Unrestricted	(2,663,019)	(2,527,441)	(3,351,315)	(4,243,824)	(4,155,346)
Total Governmental Activities Net Position	<u>\$ 22,194,124</u>	<u>\$ 20,998,697</u>	<u>\$ 19,036,773</u>	<u>\$ 17,208,272</u>	<u>\$ 16,231,055</u>
BUSINESS-TYPE ACTIVITIES:					
Net investment in capital assets (4)	\$ 1,581,436	\$ 1,526,777	\$ 1,483,416	\$ 1,397,683	\$ 1,352,658
Restricted	660,480	531,972	496,444	501,437	550,102
Unrestricted (2,4)	1,227,233	1,049,391	810,810	695,862	576,426
Total Business-type Activities Net Position	<u>\$ 3,469,149</u>	<u>\$ 3,108,140</u>	<u>\$ 2,790,670</u>	<u>\$ 2,594,982</u>	<u>\$ 2,479,186</u>
PRIMARY GOVERNMENT:					
Net investment in capital assets (4)	\$ 19,609,280	\$ 18,936,832	\$ 18,423,928	\$ 17,724,252	\$ 17,090,779
Restricted (3)	7,489,779	6,648,055	5,944,020	5,626,964	5,198,382
Unrestricted (2,4)	(1,435,786)	(1,478,050)	(2,540,505)	(3,547,962)	(3,578,920)
Total Primary Government Net Position	<u>\$ 25,663,273</u>	<u>\$ 24,106,837</u>	<u>\$ 21,827,443</u>	<u>\$ 19,803,254</u>	<u>\$ 18,710,241</u>

(1) This schedule reports using the accrual basis of accounting.

(2) Fiscal year 2012 unrestricted net position was restated as a result of GASB Statement No. 61 in which Northern Arizona Capital Facilities Corporation was reclassified from a discrete non-major university component unit to a blended university component unit.

(3) Fiscal year 2012 restricted net position was restated as a result of an agency fund being reclassified to a special revenue fund.

(4) Fiscal year 2013 unrestricted net position for the Universities was restated as a result of GASB Statement No. 65 to expense debt issuance costs.

Fiscal Year				
2009	2008	2007, as restated	2006, as restated	2005, as restated
\$ 15,094,719	\$ 14,530,867	\$ 13,500,218	\$ 12,878,151	\$ 11,825,961
3,990,594	4,987,365	4,734,039	3,560,868	2,938,288
(2,984,628)	(1,105,246)	614,606	733,455	(463,515)
<u>\$ 16,100,685</u>	<u>\$ 18,412,986</u>	<u>\$ 18,848,863</u>	<u>\$ 17,172,474</u>	<u>\$ 14,300,734</u>
\$ 1,328,658	\$ 1,387,655	\$ 1,186,177	\$ 1,146,618	\$ 1,172,613
1,085,399	1,581,212	1,575,991	1,400,455	1,232,016
376,908	188,354	295,377	179,524	84,248
<u>\$ 2,790,965</u>	<u>\$ 3,157,221</u>	<u>\$ 3,057,545</u>	<u>\$ 2,726,597</u>	<u>\$ 2,488,877</u>
\$ 16,423,377	\$ 15,918,522	\$ 14,686,395	\$ 14,024,769	\$ 12,998,574
5,075,993	6,568,577	6,310,030	4,961,323	4,170,304
(2,607,720)	(916,892)	909,983	912,979	(379,267)
<u>\$ 18,891,650</u>	<u>\$ 21,570,207</u>	<u>\$ 21,906,408</u>	<u>\$ 19,899,071</u>	<u>\$ 16,789,611</u>

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET POSITION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Fiscal Year				
	2014	2013, as restated	2012, as restated	2011	2010
EXPENSES					
Governmental Activities:					
General government	\$ 763,830	\$ 836,431	\$ 840,189	\$ 929,107	\$ 941,813
Health and welfare	12,768,332	12,168,426	11,992,408	12,558,119	13,090,357
Inspection and regulation	160,797	161,480	151,937	149,649	157,786
Education	5,573,656	5,372,267	5,331,848	5,467,543	5,706,667
Protection and safety	1,408,049	1,400,413	1,380,999	1,299,205	1,451,571
Transportation (2)	791,006	754,510	808,967	857,194	511,397
Natural resources	200,868	204,179	213,339	196,210	183,535
Intergovernmental revenue sharing	2,778,299	2,685,378	2,473,881	2,462,178	2,585,683
Interest on long-term debt	279,525	355,975	350,483	341,801	261,518
Total Governmental Activities Expenses	<u>24,724,362</u>	<u>23,939,059</u>	<u>23,544,051</u>	<u>24,261,006</u>	<u>24,890,327</u>
Business-type Activities:					
Universities (8)	4,078,053	3,888,145	3,629,568	3,533,977	3,343,377
Unemployment Compensation (6)	-	-	1,069,531	1,655,364	2,103,028
Industrial Commission Special Fund (3)	36,895	38,614	83,290	27,196	67,750
Lottery (6)	-	-	496,830	439,069	432,150
Other	1,130,299	1,329,816	113,347	115,442	126,029
Total Business-type Activities Expenses	<u>5,245,247</u>	<u>5,256,575</u>	<u>5,392,566</u>	<u>5,771,048</u>	<u>6,072,334</u>
Total Primary Government Expenses	<u>\$ 29,969,609</u>	<u>\$ 29,195,634</u>	<u>\$ 28,936,617</u>	<u>\$ 30,032,054</u>	<u>\$ 30,962,661</u>
PROGRAM REVENUES					
Governmental Activities:					
Charges for services:					
General government	\$ 188,943	\$ 188,462	\$ 189,175	\$ 191,738	\$ 208,316
Inspection and regulation	157,149	156,164	150,557	149,890	143,329
Transportation (4)	113,267	119,862	108,877	114,453	123,372
Other activities	477,564	386,381	398,893	381,633	402,496
Operating grants and contributions	12,172,836	11,588,834	11,357,470	12,580,013	13,735,263
Capital grants and contributions	546,680	651,999	778,572	745,559	576,027
Total Governmental Activities					
Program Revenues	<u>13,656,439</u>	<u>13,091,702</u>	<u>12,983,544</u>	<u>14,163,286</u>	<u>15,188,803</u>
Business-type Activities:					
Charges for services:					
Universities	2,056,307	1,892,356	1,752,509	1,601,077	1,432,055
Lottery (6)	-	-	646,675	583,537	551,492
Other activities	1,325,046	1,289,456	584,240	560,502	509,254
Operating grants and contributions	1,343,922	1,570,854	1,705,773	2,212,673	2,260,071
Capital grants and contributions	41,250	15,210	53,571	14,799	12,563
Total Business-type Activities					
Program Revenues	<u>4,766,525</u>	<u>4,767,876</u>	<u>4,742,768</u>	<u>4,972,588</u>	<u>4,765,435</u>
Total Primary Government					
Program Revenues	<u>\$ 18,422,964</u>	<u>\$ 17,859,578</u>	<u>\$ 17,726,312</u>	<u>\$ 19,135,874</u>	<u>\$ 19,954,238</u>
NET (EXPENSE) REVENUE					
Governmental activities	\$ (11,067,923)	\$ (10,847,357)	\$ (10,560,507)	\$ (10,097,720)	\$ (9,701,524)
Business-type activities	(478,722)	(488,699)	(649,798)	(798,460)	(1,306,899)
Total Primary Government Net (Expense)	<u>\$ (11,546,645)</u>	<u>\$ (11,336,056)</u>	<u>\$ (11,210,305)</u>	<u>\$ (10,896,180)</u>	<u>\$ (11,008,423)</u>

Fiscal Year				
2009	2008	2007, as restated	2006, as restated	2005
\$ 928,485	\$ 982,382	\$ 802,659	\$ 781,542	\$ 646,452
12,055,439	10,884,297	9,789,699	9,057,733	8,494,206
176,354	185,996	175,609	159,766	149,238
6,084,342	6,242,173	5,984,196	5,304,555	4,853,458
1,514,282	1,510,615	1,401,513	1,279,129	1,171,340
695,070	670,173	583,304	386,777	589,966
228,430	250,258	193,862	187,947	184,538
2,755,710	3,023,836	2,864,543	2,658,636	2,335,828
222,851	179,795	191,674	172,439	182,852
<u>24,660,963</u>	<u>23,929,525</u>	<u>21,987,059</u>	<u>19,988,524</u>	<u>18,607,878</u>
3,290,033	3,227,481	2,960,790	2,762,557	2,540,193
1,086,330	356,333	248,111	226,171	292,127
30,055	14,824	23,669	(18,300)	106,295
395,950	372,740	363,508	377,104	317,226
142,229	162,300	176,486	136,894	120,629
<u>4,944,597</u>	<u>4,133,678</u>	<u>3,772,564</u>	<u>3,484,426</u>	<u>3,376,470</u>
<u>\$ 29,605,560</u>	<u>\$ 28,063,203</u>	<u>\$ 25,759,623</u>	<u>\$ 23,472,950</u>	<u>\$ 21,984,348</u>
\$ 199,011	\$ 190,374	\$ 200,495	\$ 161,664	\$ 139,486
153,642	159,857	158,022	146,191	133,073
138,520	149,560	158,019	134,068	88,296
315,660	318,776	281,796	279,836	256,804
10,620,642	9,190,910	8,536,030	7,941,223	7,544,370
553,198	523,898	354,255	388,646	497,140
<u>11,980,673</u>	<u>10,533,375</u>	<u>9,688,617</u>	<u>9,051,628</u>	<u>8,659,169</u>
1,272,694	1,167,696	1,069,339	962,967	863,042
484,486	472,937	462,200	468,697	397,561
439,010	485,242	518,922	474,801	440,646
1,243,697	898,441	883,373	852,788	834,421
14,710	38,029	27,981	30,056	19,774
<u>3,454,597</u>	<u>3,062,345</u>	<u>2,961,815</u>	<u>2,789,309</u>	<u>2,555,444</u>
<u>\$ 15,435,270</u>	<u>\$ 13,595,720</u>	<u>\$ 12,650,432</u>	<u>\$ 11,840,937</u>	<u>\$ 11,214,613</u>
\$ (12,680,290)	\$ (13,396,150)	\$ (12,298,442)	\$ (10,936,896)	\$ (9,948,709)
(1,490,000)	(1,071,333)	(810,749)	(695,117)	(821,026)
<u>\$ (14,170,290)</u>	<u>\$ (14,467,483)</u>	<u>\$ (13,109,191)</u>	<u>\$ (11,632,013)</u>	<u>\$ (10,769,735)</u>

(Continued)

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET POSITION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Fiscal Year				
	2014	2013, as restated	2012, as restated	2011	2010
GENERAL REVENUES AND OTHER					
CHANGES IN NET POSITION					
Governmental Activities:					
Taxes:					
Sales	\$ 5,948,055	\$ 6,518,480	\$ 6,296,151	\$ 5,942,250	\$ 5,029,050
Income	3,963,197	3,974,998	3,706,698	3,366,783	2,809,995
Tobacco	314,313	316,050	317,369	320,657	332,893
Property	41,215	27,429	30,656	32,038	31,417
Motor vehicle and fuel (4)	1,650,579	1,592,911	1,581,909	1,565,525	1,583,790
Other	547,481	531,186	522,510	550,430	535,435
Unrestricted investment earnings (5)	79,215	18,705	79,190	29,183	37,665
Unrestricted grants and contributions	37,926	45,746	40,678	16,468	13,213
Miscellaneous general revenues (7)	176,035	144,403	265,214	140,854	204,295
Gain (loss) on sale of trust land	83,695	174,095	125,479	(154,359)	64,005
Transfers	(578,361)	(534,722)	(576,846)	(734,892)	(809,864)
Total Governmental Activities	12,263,350	12,809,281	12,389,008	11,074,937	9,831,894
Business-type Activities:					
Sales taxes	63,669	57,490	55,309	52,913	52,318
Unrestricted investment earnings	108,296	62,017	49,501	68,401	70,766
Unrestricted grants and contributions	107	5	3,468	-	-
Miscellaneous general revenues	78,837	148,743	155,757	50,510	52,072
Contributions to permanent endowments	6,561	3,192	3,270	3,656	3,020
Special items	-	-	-	-	-
Extraordinary items	3,900	-	-	3,884	7,080
Transfers	578,361	534,722	576,846	734,892	809,864
Total Business-type Activities	839,731	806,169	844,151	914,256	995,120
Total Primary Government	\$ 13,103,081	\$ 13,615,450	\$ 13,233,159	\$ 11,989,193	\$ 10,827,014
CHANGE IN NET POSITION					
Governmental activities	\$ 1,195,427	\$ 1,961,924	\$ 1,828,501	\$ 977,217	\$ 130,370
Business-type activities	361,009	317,470	194,353	115,796	(311,779)
Total Primary Government	\$ 1,556,436	\$ 2,279,394	\$ 2,022,854	\$ 1,093,013	\$ (181,409)

- (1) This schedule reports using the accrual basis of accounting.
- (2) For fiscal year 2006, net position for governmental activities were increased by the capitalization of \$302,375 of capital assets that were previously recorded as transportation expenses.
- (3) The Industrial Commission Special Fund's cost of sales and benefits expense decreased \$125,828 during fiscal year 2006, primarily due to a decrease in insolvent carrier liabilities. During fiscal year 2005, insolvent carrier liability increased, primarily as the result of \$67,423 in Arizona workers' compensation claims from the defunct California domiciled Fremont Companies.
- (4) \$31,804 of transportation's charges for services for fiscal year 2005 were classified as motor vehicle and fuel tax revenues.
- (5) Fiscal year 2007 unrestricted investment earnings were reduced by \$17,771 due to reclassifying the Greater Arizona Development Authority from the primary government to a component unit.
- (6) For fiscal year 2013, Unemployment Compensation and Lottery changed from major to non-major funds.
- (7) Fiscal year 2012 miscellaneous general revenues was restated as a result of an agency fund being reclassified to a special revenue fund.
- (8) Fiscal year 2013 expenses for the Universities were restated as a result of GASB Statement No. 65 to expense debt issuance costs.

Fiscal Year				
2009	2008	2007, as restated	2006, as restated	2005
\$ 5,442,563	\$ 6,270,419	\$ 6,537,584	\$ 6,322,311	\$ 5,421,949
3,126,076	4,205,426	4,636,447	4,548,843	3,562,916
370,073	413,333	358,205	248,122	237,430
32,564	36,732	43,736	43,035	46,148
1,643,276	1,800,920	1,826,893	1,857,293	1,758,950
574,030	559,440	529,629	575,946	493,501
92,957	243,160	243,328	172,311	106,362
12,440	13,574	11,711	12,293	11,624
222,712	214,751	212,253	235,610	387,269
(165,696)	196,953	451,501	567,364	288,483
(983,006)	(994,435)	(876,456)	(774,492)	(707,597)
10,367,989	12,960,273	13,974,831	13,808,636	11,607,035
58,528	72,945	79,223	54,550	57,584
22,450	39,763	103,362	49,050	40,311
-	-	-	-	5
45,786	64,564	77,841	58,816	26,017
4,014	3,927	4,815	3,803	2,955
7,240	(20,100)	-	(7,874)	-
2,720	15,475	-	-	-
983,006	994,435	876,456	774,492	707,597
1,123,744	1,171,009	1,141,697	932,837	834,469
\$ 11,491,733	\$ 14,131,282	\$ 15,116,528	\$ 14,741,473	\$ 12,441,504
\$ (2,312,301)	\$ (435,877)	\$ 1,676,389	\$ 2,871,740	\$ 1,658,326
(366,256)	99,676	330,948	237,720	13,443
\$ (2,678,557)	\$ (336,201)	\$ 2,007,337	\$ 3,109,460	\$ 1,671,769

STATE OF ARIZONA
SCHEDULE 3
FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Fiscal Year				
	2014	2013	2012, as restated	2011	2010, as restated (2)
GENERAL FUND:					
Reserved for:					
Budget stabilization fund	\$ -	\$ -	\$ -	\$ -	\$ -
School facilities improvements	-	-	-	-	14,764
Continuing appropriations	-	-	-	-	55,354
Other fund balance reservations	-	-	-	-	232
Unreserved	-	-	-	-	(817,348)
Nonspendable (2)	9,600	844	891	716	-
Restricted (2)	124,390	192,187	246,977	317,471	-
Committed (2)	79,837	73,237	109,469	141,183	-
Unassigned (2)	(189,238)	156,935	(437,035)	(1,162,531)	-
Total General Fund	<u>\$ 24,589</u>	<u>\$ 423,203</u>	<u>\$ (79,698)</u>	<u>\$ (703,161)</u>	<u>\$ (746,998)</u>
ALL OTHER GOVERNMENTAL FUNDS:					
Reserved for:					
Highway construction	\$ -	\$ -	\$ -	\$ -	\$ 809,497
Other construction	-	-	-	-	45,403
School facilities improvements	-	-	-	-	-
Permanent funds	-	-	-	-	2,674,953
Continuing appropriations	-	-	-	-	116,350
Debt service	-	-	-	-	26,389
Other fund balance reservations	-	-	-	-	40,327
Unreserved, reported in:					
Special revenue funds	-	-	-	-	821,491
Capital projects funds	-	-	-	-	-
Nonspendable (2)	4,878,682	4,160,485	3,472,005	3,244,080	-
Restricted (2,3)	1,741,674	1,860,872	1,762,356	1,531,992	-
Committed (2)	734,446	661,110	514,085	452,447	-
Unassigned (2)	(29,744)	(26,266)	(33,861)	(39,009)	-
Total All Other Governmental Funds	<u>\$ 7,325,058</u>	<u>\$ 6,656,201</u>	<u>\$ 5,714,585</u>	<u>\$ 5,189,510</u>	<u>\$ 4,534,410</u>

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) Beginning in fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement No. 54. Additionally, as a result of the reclassification, fund balance for fiscal year 2010 was restated.
- (3) Fiscal year 2012 restricted fund balance was restated as a result of an agency fund being reclassified to a special revenue fund.

Fiscal Year				
2009	2008	2007, as restated	2006	2005
\$ 2,767	\$ 147,212	\$ 673,531	\$ 651,020	\$ 160,873
376,993	1,914	4,931	110,149	107,260
43,091	103,320	162,657	69,861	55,727
252	262	272	302	374
(1,401,381)	108,914	1,081,708	1,434,806	986,168
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ (978,278)</u>	<u>\$ 361,622</u>	<u>\$ 1,923,099</u>	<u>\$ 2,266,138</u>	<u>\$ 1,310,402</u>
\$ 1,304,781	\$ 1,253,202	\$ 976,488	\$ 426,015	\$ 419,072
108,129	238,985	5,288	6,256	7,307
-	-	-	-	5,386
2,196,040	2,544,365	2,454,564	2,043,591	1,716,404
212,553	143,785	94,602	118,671	120,752
27,115	35,236	34,421	37,792	21,992
7,447	27,132	17,702	5,145	25,375
767,258	919,679	793,890	657,371	574,938
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 4,623,323</u>	<u>\$ 5,162,384</u>	<u>\$ 4,376,955</u>	<u>\$ 3,294,841</u>	<u>\$ 2,891,226</u>

STATE OF ARIZONA
SCHEDULE 4
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Fiscal Year				
	2014	2013	2012, as restated	2011	2010, as restated
REVENUES					
Taxes:					
Sales	\$ 5,933,824	\$ 6,530,609	\$ 6,312,870	\$ 5,971,141	\$ 5,017,977
Income	4,012,603	4,034,631	3,715,082	3,398,972	2,805,426
Tobacco (2)	314,313	316,050	317,369	320,657	332,893
Property	41,215	27,429	30,656	32,038	31,417
Motor vehicle and fuel	1,650,579	1,592,911	1,581,909	1,565,525	1,585,919
Other	547,481	531,186	522,510	550,430	535,435
Intergovernmental	11,752,711	11,592,676	11,843,908	13,019,744	13,562,547
Licenses, fees, and permits	475,833	476,972	477,344	452,629	425,526
Earnings (loss) on investments (3,5)	739,859	499,919	190,055	438,068	422,564
Sales and charges for services (7)	185,682	182,075	188,806	186,325	203,725
Fines, forfeitures, and penalties	171,161	181,216	168,240	184,950	224,000
Gaming	86,326	86,507	85,535	80,455	77,554
Tobacco settlement	100,765	149,125	101,067	99,130	105,394
Proceeds from sale of trust land (6)	86,319	225,659	137,405	95,500	78,564
Other (8)	300,436	169,119	297,065	164,658	230,223
Total Revenues	<u>26,399,107</u>	<u>26,596,084</u>	<u>25,969,821</u>	<u>26,560,222</u>	<u>25,639,164</u>
EXPENDITURES					
Current:					
General government (7)	750,163	812,770	838,776	933,313	923,977
Health and welfare	12,643,455	12,216,622	12,029,530	12,818,468	13,054,472
Inspection and regulation	161,318	160,636	153,947	153,718	157,461
Education	5,572,414	5,369,538	5,332,141	5,467,695	5,702,963
Protection and safety	1,360,387	1,349,146	1,351,251	1,288,577	1,417,428
Transportation (4)	687,798	683,607	745,306	820,417	584,363
Natural resources	193,043	194,714	202,677	191,429	175,568
Intergovernmental revenue sharing	2,778,299	2,685,168	2,473,535	2,459,934	2,574,539
Debt service:					
Principal	493,592	412,617	386,027	383,591	288,172
Interest and other fiscal charges	312,024	329,773	344,903	357,754	286,027
Capital outlay (4)	829,630	765,339	769,716	824,417	1,291,341
Total Expenditures	<u>25,782,123</u>	<u>24,979,930</u>	<u>24,627,809</u>	<u>25,699,313</u>	<u>26,456,311</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>616,984</u>	<u>1,616,154</u>	<u>1,342,012</u>	<u>860,909</u>	<u>(817,147)</u>

Fiscal Year				
2009	2008	2007, as restated	2006	2005
\$ 5,429,453	\$ 6,278,181	\$ 6,527,968	\$ 6,313,090	\$ 5,410,383
3,137,794	4,174,966	4,629,220	4,535,492	3,528,565
370,073	413,333	358,205	248,122	237,430
32,564	36,732	43,736	43,035	46,148
1,672,151	1,802,572	1,828,701	1,857,293	1,758,950
574,030	559,440	529,629	575,946	493,501
11,316,023	9,499,419	8,313,720	8,019,509	7,714,012
410,002	447,090	442,236	410,069	335,760
(318,321)	135,879	510,253	247,250	190,499
154,671	167,329	158,318	162,048	154,251
203,337	167,309	183,923	138,354	121,123
84,140	94,004	94,771	84,794	67,658
125,571	115,587	90,258	86,231	93,933
143,674	-	-	-	-
253,868	263,443	264,440	269,411	430,097
23,589,030	24,155,284	23,975,378	22,990,644	20,582,310
913,266	966,512	879,519	861,373	758,149
11,959,640	10,874,581	9,679,226	8,995,430	8,419,913
174,633	184,451	173,897	157,401	146,523
6,031,605	6,240,862	5,983,513	5,302,942	4,852,099
1,460,692	1,447,372	1,358,439	1,247,508	1,132,473
608,631	630,283	524,318	373,603	564,574
220,030	242,893	185,592	178,832	175,593
2,764,776	3,026,563	2,863,218	2,661,894	2,335,828
235,971	261,228	220,473	261,277	381,512
238,430	210,856	195,317	176,933	200,731
1,295,530	1,106,951	992,000	1,066,815	710,688
25,903,204	25,192,552	23,055,512	21,284,008	19,678,083
(2,314,174)	(1,037,268)	919,866	1,706,636	904,227

(Continued)

STATE OF ARIZONA
SCHEDULE 4
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Fiscal Year				
	2014	2013	2012, as restated	2011	2010, as restated
OTHER FINANCING SOURCES (USES)					
Transfers in	904,261	782,420	821,072	862,040	1,106,250
Transfers out	(1,397,332)	(1,256,408)	(1,323,778)	(1,574,406)	(1,872,212)
Proceeds from sale of trust land (6)	-	-	-	-	-
Proceeds from sale of capital assets	900	1,636	1,815	3,712	3,088
Capital lease and installment purchase contracts	113,914	15,158	8,166	4,583	187,836
Proceeds from notes and loans	29,130	51,550	9,541	11,113	32,628
Refunding bonds issued	-	837,340	455,900	-	-
Payment to refunded bond escrow agent	-	(954,372)	(560,228)	-	-
Bonds issued	-	194,295	259,460	180,000	425,420
Refunding grant anticipation notes issued	-	-	43,825	-	-
Grant anticipation notes issued	-	-	-	158,585	-
Refunding certificates of participation issued	305,675	62,630	-	-	-
Payment to refunded certificates of participation escrow agent	(310,059)	(42,096)	-	-	-
Certificates of participation issued	-	-	-	150,110	998,795
Premium on debt issued	6,770	136,210	90,753	42,291	77,709
Total Other Financing Sources (Uses)	<u>(346,741)</u>	<u>(171,637)</u>	<u>(193,474)</u>	<u>(161,972)</u>	<u>959,514</u>
NET CHANGE IN FUND BALANCES	<u>\$ 270,243</u>	<u>\$ 1,444,517</u>	<u>\$ 1,148,538</u>	<u>\$ 698,937</u>	<u>\$ 142,367</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	3.2%	3.1%	3.1%	3.0%	2.3%

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) Increase in tobacco tax revenue from fiscal year 2006 to fiscal year 2007 primarily due to Proposition 203, implemented December 2006.
- (3) Increase from fiscal year 2006 to fiscal year 2007 primarily due to increase in Land Endowment fair market value of investments, larger cash balances available to invest, and market interest rates.
- (4) For fiscal year 2006, transportation expenditures were reduced and capital outlay was increased by \$302,375 for addition of capital assets that were previously recorded as transportation expenditures.
- (5) In fiscal year 2008, the Greater Arizona Development Authority Fund was reclassified from a special revenue fund to a component unit. Fiscal year 2007 earnings on investments has been restated to reflect this change.
- (6) In fiscal year 2009, "Proceeds from sale of trust land" was moved from "Other financing sources (uses)" to "Revenues."
- (7) In fiscal year 2010, amounts were restated as a result of implementing GASB Statement No. 54.
- (8) Fiscal year 2012 other revenues was restated as a result of an agency fund being reclassified to a special revenue fund.

Fiscal Year				
2009	2008	2007, as restated	2006	2005
1,248,267	897,771	910,605	812,083	1,011,456
(2,168,964)	(1,874,084)	(1,784,833)	(1,585,754)	(1,714,562)
-	249,970	199,089	284,293	274,127
2,127	28,233	10,162	11,118	-
4,056	23,556	132,985	3,543	5,350
23,139	19,529	-	-	-
-	82,880	-	596,160	224,283
-	(86,547)	-	(646,689)	(247,417)
621,050	563,950	325,000	118,250	210,577
-	-	-	-	-
55,420	68,000	-	-	104,385
-	-	-	-	334,225
-	-	-	-	(363,052)
580,035	238,990	-	-	237,625
70,083	48,972	26,201	59,711	100,509
435,213	261,220	(180,791)	(347,285)	177,506
<u>\$ (1,878,961)</u>	<u>\$ (776,048)</u>	<u>\$ 739,075</u>	<u>\$ 1,359,351</u>	<u>\$ 1,081,733</u>
1.9%	2.0%	1.9%	2.2%	3.1%

STATE OF ARIZONA
SCHEDULE 5
NET TAXABLE SALES BY CLASSIFICATION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Fiscal Year					
	2014	2013	2012	2011	2010	2009
<u>CLASSIFICATION (5)</u>						
Transporting (2)	\$ 54,981	\$ 41,324	\$ 52,137	\$ 41,555	\$ 41,990	\$ 37,920
Mining, oil and gas	116,678	115,775	105,614	96,514	102,900	175,743
Mining severance	1,047,580	1,193,176	1,623,111	1,609,451	1,164,231	729,482
Utilities	9,923,490	9,900,238	9,474,521	9,394,361	9,354,244	9,236,366
Communications	2,965,233	3,061,730	3,190,962	2,853,538	3,618,208	2,928,433
Private car and pipelines	5,616	6,250	1,186	1,908	1,640	7,743
Publishing	101,751	84,673	92,505	98,343	103,681	102,457
Job printing	321,225	235,349	252,603	266,564	236,985	307,581
Restaurants and bars	11,085,652	10,544,419	9,996,825	9,311,826	9,020,795	9,094,485
Amusements	1,096,945	1,051,581	1,037,059	994,092	1,051,919	1,053,048
Commercial lease (3)	2	2	1	2	141	1
Personal property rentals	3,355,048	3,254,822	3,257,588	3,056,386	3,127,828	3,552,696
Contracting	11,269,503	10,092,876	9,543,335	8,983,261	9,311,612	14,882,706
Retail	55,257,510	51,276,108	48,178,714	45,898,838	42,913,933	46,174,068
Hotel/motel	2,334,373	2,221,059	2,156,864	2,039,283	1,949,718	2,117,242
Rental occupancy tax (7)	-	-	(3)	43	(62)	(25)
Use tax	4,749,508	5,186,464	5,302,844	4,610,921	5,464,504	5,882,942
Use tax-utilities (6)	62,511	10,283	10,022	10,040	(35,594)	38,653
Membership camping (7)	-	-	-	1	10	11
Total	\$ 103,747,606	\$ 98,276,129	\$ 94,275,888	\$ 89,266,927	\$ 87,428,683	\$ 96,321,552
Direct sales tax rate (4)	5.60%	6.60%	6.60%	6.60%	5.60%	5.60%

(1) Net taxable sales are based upon tax receipts.

(2) The transporting/towing and railroads/aircraft business classifications have been combined into one category and renamed "transporting."

(3) Commercial lease rate dropped to 0% effective July 1, 1997.

(4) A significant portion of the revenue base was subject to a sales tax rate of 5.6% for fiscal years 2005 through 2010, and 2014. The sales tax rate was 6.6% for fiscal years 2011 through 2013. For fiscal years 2005 through 2014, the tax rate for non-metal mining, oil and gas was 3.125%, the mining severance was 2.5%, and the jet fuel and jet fuel use tax was \$.0305 per gallon. The hotel/motel tax rate was 5.5% for fiscal years 2005 through 2010, and 2014. The hotel/motel tax rate was 6.5% for fiscal years 2011 through 2013. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with an affirmative vote of two-thirds of the members of each house. The 1.00% rate increase approved under Proposition 100 on May 18, 2010 increased the state transaction privilege and use rate by one percentage point beginning June 1, 2010 and ending May 31, 2013, which is reflected in this table.

(5) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.

(6) Use tax-utilities was not reported prior to fiscal year 2008. Fiscal years 2005 through 2008 were reported beginning in fiscal year 2008.

(7) Effective November 1, 2006, membership camping and rental occupancy were repealed.

Source: Arizona Department of Revenue Annual Reports for fiscal years 2014 and prior.

Fiscal Year			
2008	2007	2006	2005
\$ 48,713	\$ 43,351	\$ 59,801	\$ 53,371
216,675	255,531	321,538	317,202
1,752,522	1,743,361	1,219,984	656,631
9,237,779	8,609,034	7,679,982	6,828,179
3,669,683	3,513,667	3,220,062	2,934,858
16,021	19,679	25,751	14,832
122,652	129,681	133,680	134,925
391,038	397,802	403,686	367,010
9,663,959	9,619,785	8,933,459	7,939,964
1,146,344	1,086,364	998,767	872,520
(443)	(2)	(120)	919
3,995,697	3,927,824	3,633,374	3,242,363
20,156,299	22,415,051	20,487,917	16,044,847
52,626,993	55,009,403	53,147,971	46,378,344
2,405,705	2,411,634	2,268,776	2,063,973
(2,669)	1,065	3,471	2,414
6,837,880	6,091,507	6,155,959	5,218,535
12,461	12,154	16,582	234
52	12	2,785	2,897
<u>\$ 112,297,361</u>	<u>\$ 115,286,903</u>	<u>\$ 108,713,425</u>	<u>\$ 93,074,018</u>
5.60%	5.60%	5.60%	5.60%

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STATE OF ARIZONA
SCHEDULE 6
SALES TAX REVENUE PAYERS BY CLASSIFICATION
CURRENT YEAR AND NINE YEARS AGO
(Expressed in Thousands)

	Fiscal Year 2014		Fiscal Year 2005	
	Tax Collections	Percentage of Total	Tax Collections	Percentage of Total
<u>CLASSIFICATION</u>				
Transporting (1)	\$ 2,749	0.05 %	\$ 2,662	0.05 %
Non-metal mining, oil and gas	3,646	0.06	9,899	0.19
Mining severance	26,190	0.45	16,399	0.32
Timbering severance - ponderosa (2)	-	-	40	-
Utilities	496,174	8.59	340,918	6.59
Communications	148,262	2.57	146,523	2.83
Private car and pipelines	281	-	741	0.01
Publishing	5,088	0.09	6,735	0.13
Job Printing	16,061	0.28	18,323	0.35
Restaurants and bars	554,283	9.60	396,430	7.66
Amusements	54,847	0.95	43,562	0.84
Commercial lease (3)	-	-	31	-
Personal property rentals	167,755	2.90	161,861	3.13
Contracting	563,368	9.75	797,215	15.41
Retail	2,762,875	47.85	2,315,028	44.76
Hotel/motel	128,390	2.22	113,372	2.19
Rental occupancy tax (2)	-	-	72	-
Use tax utilities	3,126	0.05	12	-
Use tax	235,985	4.09	259,616	5.02
License fees	567	0.01	377	0.01
Membership camping (2)	-	-	145	-
Jet fuel tax	3,190	0.06	5,341	0.10
Jet fuel use tax	382	0.01	890	0.02
Non sufficient funds	72	-	10	-
Telecommunications service				-
assistance	-	-	(292)	(0.01)
Mandatory EFT fees	179	-	-	-
Other	-	-	-	-
Amnesty	-	-	-	-
Education tax (4)	601,854	10.42	538,346	10.40
Education Amnesty tax (4)	-	-	-	-
Total	<u>\$ 5,775,324</u>	<u>100.00 %</u>	<u>\$ 5,174,256</u>	<u>100.00 %</u>

- (1) Transporting/towing was combined with railroads/aircraft for confidentiality purposes beginning in fiscal year 2004.
- (2) Effective November 1, 2006 these rates were repealed.
- (3) Commercial lease rate dropped to 0% effective July 1, 1997.
- (4) The education tax is .6% of net taxable sales for most classifications. The ones that do not collect the education tax are non-metal mining, oil and gas, mining and timbering severances, hotel/motel, rental occupancy, and jet fuel taxes. The Arizona Department of Revenue's annual report does not include the amount of education tax collected from each classification; rather it reports the total collected from all classifications. The education tax became effective June 1, 2001.

Source: Arizona Department of Revenue Annual Reports for fiscal years 2014 and 2005.

STATE OF ARIZONA
SCHEDULE 7
PERSONAL INCOME BY INDUSTRY (3)
FOR THE LAST TEN CALENDAR YEARS
(Expressed in Thousands)

CLASSIFICATION	Calendar Year Ended December 31					
	2013	2012	2011	2010	2009	2008
Farm earnings	\$ 897,344	\$ 710,024	\$ 1,131,622	\$ 677,207	\$ 486,248	\$ 645,380
Forestry and fishing	450,381	453,713	440,489	437,051	413,290	408,317
Mining	1,445,046	1,376,603	1,223,284	996,532	967,718	1,326,946
Utilities	1,576,226	1,547,513	1,581,577	1,524,831	1,552,827	1,566,139
Construction	9,667,198	8,969,224	8,295,293	8,404,395	9,501,698	13,110,247
Manufacturing	13,648,768	13,580,518	13,032,386	12,403,418	12,357,432	13,699,896
Wholesale trade	8,564,114	8,748,032	8,188,350	7,861,098	7,952,813	8,566,548
Retail trade	12,612,930	12,511,242	12,316,131	11,649,145	11,542,983	12,327,789
Transportation and warehousing	5,264,736	5,188,604	4,948,388	4,563,008	4,575,730	4,837,443
Information	3,456,440	3,112,924	2,926,787	2,825,917	3,047,084	3,120,325
Finance and insurance	12,413,522	11,320,012	10,426,744	9,884,023	9,453,310	9,801,188
Real estate, rental, and leasing	5,093,673	4,777,863	4,111,488	3,239,757	3,100,084	3,922,054
Professional and technical services	13,522,336	13,032,658	12,551,710	11,801,237	12,076,361	13,136,870
Managing companies/enterprises	2,871,785	2,526,166	2,291,182	2,193,738	2,462,194	2,470,198
Administrative and waste services	9,976,354	9,245,292	8,854,837	8,522,260	8,707,357	9,567,920
Educational services	2,905,732	2,939,848	2,745,004	2,589,823	2,333,676	2,075,080
Health care and social assistance	20,797,511	20,206,297	19,681,806	18,964,490	18,164,486	17,594,905
Arts, entertainment, and recreation	1,953,388	1,892,513	1,694,718	1,671,411	1,619,892	1,693,891
Accommodation and food services	6,369,701	6,148,099	5,848,103	5,569,987	5,570,360	5,928,434
Other services, except public administration	6,270,067	6,021,622	5,628,164	5,392,701	5,381,320	5,502,130
Government and government enterprises	29,763,504	29,526,390	29,068,350	28,810,035	28,547,342	28,488,923
Other (1)	75,549,701	76,094,113	72,732,781	67,873,581	65,821,736	64,870,564
Total	<u>\$ 245,070,457</u>	<u>\$ 239,929,270</u>	<u>\$ 229,719,194</u>	<u>\$ 217,855,645</u>	<u>\$ 215,635,941</u>	<u>\$ 224,661,187</u>
Average effective rate (2)	1.41%	1.42%	1.35%	1.32%	1.12%	1.15%

- (1) Includes dividends, interest, rental income, personal current transfer receipts, adjustment for residence, and deductions for government social insurance.
- (2) The total direct rate for personal income is not available. Average effective rate equals tax collections for the fiscal year, ending the following June 30, divided by personal income.
- (3) Personal income estimates for years 2004 through 2012 were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.

Source: U.S. Bureau of Economic Analysis and Arizona Department of Revenue Annual Report.

Calendar Year Ended December 31			
2007	2006	2005	2004
\$ 837,363	\$ 709,433	\$ 994,693	\$ 1,023,936
457,453	461,631	399,051	405,671
991,202	854,763	677,482	602,636
1,455,783	1,325,521	1,150,823	1,042,553
15,562,946	16,395,985	13,912,787	11,757,853
13,674,920	13,432,145	12,365,657	12,021,366
8,624,381	7,718,890	6,990,167	6,436,540
13,128,380	12,816,987	11,678,494	10,565,203
5,055,292	4,797,771	4,291,039	4,013,891
3,067,970	3,063,223	2,900,864	2,975,891
10,409,468	10,282,521	9,477,950	8,283,193
3,858,585	4,683,954	4,388,068	3,754,621
12,490,540	11,469,765	9,884,137	8,667,998
2,426,609	2,020,026	1,650,697	1,863,600
9,617,313	9,208,807	8,142,287	7,058,323
1,844,838	1,706,338	1,565,536	1,436,933
16,010,696	14,677,313	13,076,104	12,044,387
1,659,932	1,608,229	1,409,468	1,382,374
6,014,942	5,624,322	5,141,305	4,736,028
5,782,401	5,597,351	4,900,222	4,392,104
26,957,426	25,039,926	23,302,238	21,715,202
61,247,018	56,405,799	50,981,563	44,658,533
<u>\$ 221,175,458</u>	<u>\$ 209,900,700</u>	<u>\$ 189,280,632</u>	<u>\$ 170,838,836</u>
1.54%	1.75%	1.93%	1.67%

STATE OF ARIZONA
SCHEDULE 8
PERSONAL INCOME TAX RATES
FOR THE LAST TEN CALENDAR YEARS
(Expressed in Thousands)

	Calendar Year Ended December 31				
	2013	2012	2011	2010	2009
<u>AVERAGE EFFECTIVE RATE (3)</u>					
Personal Income Tax Revenue (1)	\$ 3,463,272	\$ 3,398,902	\$ 3,099,177	\$ 2,870,765	\$ 2,423,215
Personal Income (2)	\$ 245,070,457	\$ 239,929,270	\$ 229,719,194	\$ 217,855,645	\$ 215,635,941
Average Effective Rate (3)	1.41%	1.42%	1.35%	1.32%	1.12%

**TAX RATES ON THE PORTION OF
TAXABLE INCOME IN RANGES (4)**

\$0 - \$10	2.59%	2.59%	2.59%	2.59%	2.59%
\$10 - \$25	2.88%	2.88%	2.88%	2.88%	2.88%
\$25 - \$50	3.36%	3.36%	3.36%	3.36%	3.36%
\$50 - \$150	4.24%	4.24%	4.24%	4.24%	4.24%
\$150 and over	4.54%	4.54%	4.54%	4.54%	4.54%

(1) Personal income tax revenue includes income tax collections and refunds, on a cash basis, for the fiscal year ending the following June 30.

(2) Personal income is reported on a calendar basis. Years 2004 through 2012 have been revised to reflect revisions made by the U.S.

Bureau of Economic Analysis.

(3) The total direct rate for personal income is not available. Average effective rate equals tax collections for the fiscal year, ending the following June 30, divided by personal income.

(4) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the amounts for the income tax ranges. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with a vote of two-thirds of the members of each house.

Source: Arizona Department of Revenue Annual Reports/Tax Tables and the U.S. Bureau of Economic Analysis.

STATE OF ARIZONA
SCHEDULE 9
PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
FOR THE TAXABLE YEARS 2011 AND 2004 (1)
(Expressed in Thousands, Except Number of Filers)

	Taxable Year Ended December 31, 2011			
	Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
<u>FEDERAL ADJUSTED GROSS INCOME LEVEL (3)</u>				
\$50 and under	1,821,103	68.13%	\$ 426,558	14.18%
\$50 - \$100	541,104	20.24%	690,581	22.94%
\$100 - \$500	298,888	11.18%	1,209,916	40.18%
\$500 and over	12,025	0.45%	683,357	22.70%
Total	2,673,120	100.00%	\$ 3,010,412	100.00%

(1) The taxable year 2011 is the most recent year for which data is available, and combines the number of filers of the Arizona Forms 140, 140A, 140NR (nonresident), and 140PY (part year resident) Individual Income tax returns.

(2) Liability, as reported on Arizona Forms 140, 140A, 140NR (nonresident), and 140PY (part year resident) Individual Income tax returns for tax year 2011, filed from January 2012 forward (or 2004, filed from January 2005 forward).

(3) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.

Source: Arizona Department of Revenue Annual Reports.

Calendar Year Ended December 31

2008	2007	2006	2005	2004
\$ 2,575,453	\$ 3,414,304	\$ 3,666,923	\$ 3,651,576	\$ 2,854,009
\$ 224,661,187	\$ 221,175,458	\$ 209,900,700	\$ 189,280,632	\$ 170,838,836
1.15%	1.54%	1.75%	1.93%	1.67%
2.59%	2.59%	2.73%	2.87%	2.87%
2.88%	2.88%	3.04%	3.20%	3.20%
3.36%	3.36%	3.55%	3.74%	3.74%
4.24%	4.24%	4.48%	4.72%	4.72%
4.54%	4.54%	4.79%	5.04%	5.04%

Taxable Year Ended December 31, 2004

Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
1,628,589	70.33%	\$ 457,689	16.32%
475,463	20.53%	672,749	23.99%
200,326	8.65%	931,118	33.19%
11,369	0.49%	743,267	26.50%
2,315,747	100.00%	\$ 2,804,823	100.00%

STATE OF ARIZONA
SCHEDULE 10
RATIOS OF OUTSTANDING DEBT BY TYPE
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands, Except Amount of Debt per Capita)

	Fiscal Year					
	2014	2013	2012	2011	2010	2009
GOVERNMENTAL ACTIVITIES:						
Revenue bonds	\$ 3,406,195	\$ 3,606,720	\$ 3,593,420	\$ 3,529,115	\$ 3,522,605	\$ 3,251,580
Grant anticipation notes	247,710	296,240	335,230	392,495	304,480	329,650
Certificates of participation	2,200,675	2,360,595	2,495,825	2,611,255	2,571,125	1,649,870
Capital leases	449,209	360,316	391,184	400,540	412,919	236,125
Installment purchase contracts	-	-	177	245	901	6,343
Notes payable	89,865	105,817	55,666	59,891	60,712	42,668
Premiums and discounts on debt	427,865	474,747	396,465	342,602	334,721	285,613
Deferred amount on refundings (2)	-	(19,945)	(813)	(1,221)	(5,197)	(9,171)
Total Governmental Activities	<u>6,821,519</u>	<u>7,184,490</u>	<u>7,267,154</u>	<u>7,334,922</u>	<u>7,202,266</u>	<u>5,792,678</u>
BUSINESS-TYPE ACTIVITIES:						
Revenue bonds	2,302,035	2,237,710	1,942,755	1,742,125	1,692,825	1,239,675
Certificates of participation	676,345	714,735	756,980	812,706	840,719	872,829
Capital leases	132,957	135,519	163,637	167,841	171,448	175,453
Installment purchase contracts	4,098	5,758	8,397	10,511	13,043	16,418
Notes payable	-	-	12,643	292	360	674
Premiums and discounts on debt	130,315	123,051	87,993	41,393	39,705	43,112
Deferred amount on refundings (2)	-	(46,096)	(33,391)	(20,875)	(23,100)	(25,294)
Total Business-type Activities	<u>3,245,750</u>	<u>3,170,677</u>	<u>2,939,014</u>	<u>2,753,993</u>	<u>2,735,000</u>	<u>2,322,867</u>
Total Primary Government	<u>\$ 10,067,269</u>	<u>\$ 10,355,167</u>	<u>\$ 10,206,168</u>	<u>\$ 10,088,915</u>	<u>\$ 9,937,266</u>	<u>\$ 8,115,545</u>
Debt as a Percentage of						
Personal Income (1)	4.1%	4.3%	4.4%	4.6%	4.6%	3.6%
Amount of Debt per Capita (1)	\$ 1,519	\$ 1,581	\$ 1,578	\$ 1,574	\$ 1,567	\$ 1,292

Note: Details regarding the State's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule 23 for personal income and population data. These ratios are calculated using personal income and population data for the calendar year that ends during that fiscal year. For example, fiscal year 2014 contains data for the calendar year ending December 31, 2013.

(2) Implementation of GASB Statement No. 65 in fiscal year 2014 required the amortization of deferred amount on refundings to be reported as deferred outflows of resources.

Fiscal Year			
2008	2007	2006	2005
\$ 2,759,070	\$ 2,328,840	\$ 2,106,700	\$ 2,170,845
298,280	282,860	325,430	363,970
1,135,640	959,865	1,020,810	1,054,677
249,876	242,209	129,808	126,676
8,908	10,644	6,815	6,926
22,838	3,309	-	-
242,816	225,071	219,958	197,479
(13,145)	(14,266)	(17,832)	-
4,704,283	4,038,532	3,791,689	3,920,573
902,255	868,565	802,600	768,000
903,843	935,127	946,766	860,759
179,052	166,780	113,388	120,361
13,024	9,544	10,279	7,276
1,022	1,354	-	30
38,211	39,582	38,331	36,133
(27,711)	(29,211)	(21,606)	(20,821)
2,009,696	1,991,741	1,889,758	1,771,738
\$ 6,713,979	\$ 6,030,273	\$ 5,681,447	\$ 5,692,311
3.0%	2.9%	3.0%	3.3%
\$ 1,089	\$ 1,000	\$ 973	\$ 1,007

STATE OF ARIZONA
SCHEDULE 11
LEGAL DEBT MARGIN INFORMATION
ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Total Principal Outstanding Debt Limit (1)				
Fiscal Year	Debt Limit	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2014	\$ -	\$ -	\$ -	- %
2013	-	-	-	-
2012	-	-	-	-
2011	-	-	-	-
2010	-	-	-	-
2009	-	-	-	-
2008	-	-	-	-
2007	-	-	-	-
2006	1,300,000	1,223,425	76,575	94.11
2005	1,300,000	1,161,355	138,645	89.34

(1) As stated in House Bill 2206 of the Second Regular Session of the Forty-seventh Legislature, the \$1.3 billion debt limit is eliminated from A.R.S. § 28-7510. The general effective date of this change was September 21, 2006. Prior to September 21, 2006, Arizona Revised Statutes restricted the total principal amount of Arizona Highway Revenue Bonds that could be outstanding at any time, excluding refunded bonds, from exceeding \$1.3 billion.

STATE OF ARIZONA
SCHEDULE 12
LEGAL DEBT MARGIN INFORMATION
ARIZONA STATE UNIVERSITY
FOR THE LAST NINE FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2014	\$ 1,844,828	\$ 147,586	\$ 107,000	\$ 40,586	5.80 %
2013	1,710,909	136,873	94,100	42,773	5.50 %
2012	1,612,000	128,960	80,600	48,360	5.00 %
2011	1,606,250	128,500	77,100	51,400	4.80 %
2010	1,894,737	151,579	108,000	43,579	5.70 %
2009	1,865,385	149,231	97,000	52,231	5.20 %
2008	2,017,544	161,404	115,000	46,404	5.70 %
2007	1,880,769	150,462	97,800	52,662	5.20 %
2006	1,724,528	137,962	91,400	46,562	5.30 %

- (1) Ten years of data is not available, but will be accumulated over time.
(2) For fiscal years 2006 through 2014, projections are based upon the University's fiscal years 2008-2010, 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, and 2016-2018 capital improvement plans, respectively.
(3) Per A.R.S. § 15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA
SCHEDULE 13
LEGAL DEBT MARGIN INFORMATION
UNIVERSITY OF ARIZONA
FOR THE LAST EIGHT FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2014	\$ 1,739,216	\$ 139,137	\$ 88,700	\$ 50,437	5.10 %
2013	1,683,019	134,642	89,200	45,442	5.30
2012	1,611,765	128,941	82,200	46,741	5.10
2011	1,556,364	124,509	85,600	38,909	5.50
2010	1,817,647	145,412	92,700	52,712	5.10
2009	1,681,818	134,545	92,500	42,045	5.50
2008	1,681,132	134,491	89,100	45,391	5.30
2007	1,657,971	132,638	114,400	18,238	6.90

- (1) Ten years of data is not available, but will be accumulated over time.
(2) For fiscal years 2007 through 2014, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, and 2016-2018 capital improvement plans, respectively.
(3) Per A.R.S. § 15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA
SCHEDULE 14
LEGAL DEBT MARGIN INFORMATION
NORTHERN ARIZONA UNIVERSITY
FOR THE LAST EIGHT FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2014	\$ 485,265	\$ 38,821	\$ 24,700	\$ 14,121	5.09 %
2013	453,039	36,243	24,600	11,643	5.43
2012	427,586	34,207	24,800	9,407	5.80
2011	405,109	32,409	22,200	10,209	5.48
2010	423,601	33,888	28,000	5,888	6.61
2009	419,448	33,556	28,900	4,656	6.89
2008	430,360	34,429	27,500	6,929	6.39
2007	410,811	32,865	30,400	2,465	7.40

- (1) Ten years of data is not available, but will be accumulated over time.
(2) For fiscal years 2007 through 2014, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, and 2016-2018 capital improvement plans, respectively.
(3) Per A.R.S. § 15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA

SCHEDULE 15

PLEDGED-REVENUE COVERAGE**ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2014

(Expressed in Thousands)

	(1), (2)					
Fiscal	Pledged	Debt Service				
Year	Revenue	Principal	Interest	Total	Coverage	
2014	\$ 537,768	\$ 58,485	\$ 80,495	\$ 138,980	3.9	
2013	512,971	60,540	78,198	138,738	3.7	
2012	392,648	67,885	71,113	138,998	2.8	
2011	504,175	71,770	83,960	155,730	3.2	
2010	502,874	68,140	87,661	155,801	3.2	
2009	509,183	64,190	89,825	154,015	3.3	
2008	658,616	60,645	75,538	136,183	4.8	
2007	635,140	57,825	73,785	131,610	4.8	
2006	624,408	54,830	62,222	117,052	5.3	
2005	461,763	44,265	60,459	104,724	4.4	

(1) The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.

(2) Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2005 is net of a \$118 million distribution to the State General Fund. Fiscal year 2009 is net of \$66 million, 2010 is net of \$44 million, and 2011 is net of \$45 million distribution to the State General Fund.

STATE OF ARIZONA

SCHEDULE 16

PLEDGED-REVENUE COVERAGE**ARIZONA TRANSPORTATION BOARD TRANSPORTATION EXCISE TAX REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2014

(Expressed in Thousands)

Fiscal Year	(1) Pledged	Debt Service			Coverage
	Revenue	Principal	Interest	Total	
2014	\$ 243,786	\$ 58,600	\$ 44,988	\$ 103,588	2.4
2013	227,800	55,870	47,721	103,591	2.2
2012	216,281	55,460	48,129	103,589	2.1
2011	206,545	45,970	42,496	88,466	2.3
2010	199,672	33,315	38,225	71,540	2.8
2009	219,165	13,825	17,193	31,018	7.1
2008	253,742	19,045	10,673	29,718	8.5
2007	262,264	-	-	-	N/A
2006	316,491	80,375	1,566	81,941	3.9
2005	316,806	208,625	14,318	222,943	1.4

(1) The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County.

STATE OF ARIZONA

SCHEDULE 17

PLEDGED-REVENUE COVERAGE**SCHOOL FACILITIES BOARD STATE SCHOOL IMPROVEMENT REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2014

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(2) Debt Service			Coverage
		Principal	Interest	Total	
2014	\$ 601,854	\$ 46,720	\$ 9,575	\$ 56,295	10.69
2013	567,824	43,680	13,487	57,167	9.93
2012	542,395	41,405	22,804	64,209	8.45
2011	514,346	39,215	25,088	64,303	8.00
2010	504,391	37,230	27,074	64,304	7.84
2009	558,900	35,420	28,885	64,305	8.69
2008	645,828	33,810	30,498	64,308	10.04
2007	666,184	31,055	31,893	62,948	10.58
2006	628,471	34,480	30,052	64,532	9.74
2005	538,346	28,485	36,060	64,545	8.34

(1) Pledged revenues consist of education transaction privilege tax revenues. These revenues result from a .6% increase in the State transaction privilege and use tax rate that was approved by a statewide vote at the November 2000 election.

(2) Principal does not include sinking fund deposits of \$1,270 each year, beginning in fiscal year 2003 and ending in fiscal year 2007, that will be sufficient to retire bonds with a par amount of \$6,350 upon maturity, in fiscal year 2016. Additionally, principal does not include sinking fund deposits of \$1,538 each year, beginning in fiscal year 2006 and ending in fiscal year 2018, that will be sufficient to retire bonds with a par amount of \$20,000 upon maturity, in fiscal year 2018.

STATE OF ARIZONA

SCHEDULE 18

PLEDGED-REVENUE COVERAGE**SCHOOL FACILITIES BOARD STATE SCHOOL TRUST REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2014

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(2) Debt Service			Coverage
		Principal	Interest	Total	
2014	\$ 57,345	\$ 19,275	\$ 4,971	\$ 24,246	2.37
2013	49,645	18,315	5,933	24,248	2.05
2012	39,155	17,400	6,846	24,246	1.61
2011	42,191	16,535	7,714	24,249	1.74
2010	38,147	15,710	8,539	24,249	1.57
2009	72,263	15,105	9,143	24,248	2.98
2008	72,263	14,470	8,400	22,870	3.16
2007	72,263	13,980	11,524	25,504	2.83
2006	72,263	13,440	12,061	25,501	2.83
2005	72,263	13,740	11,960	25,700	2.81

(1) Pledged revenues consist of expendable revenue from the State School Trust. This revenue includes the State Treasurer's formula distribution of earnings on permanent fund investments as specified in the Arizona Constitution. Additionally, the State Land Commissioner distributes interest received from financed sales of trust lands and revenue received from land trust leases, except that, under current statutes, the amount of State School Trust Revenues available to pay debt service on all State School Trust Revenue Obligations shall not exceed \$72,263. Expendable trust revenues in excess of \$72,263 must be deposited in the Classroom Site Fund.

STATE OF ARIZONA
SCHEDULE 19
PLEDGED-REVENUE COVERAGE
LOTTERY REVENUE BONDS
FOR THE LAST FOUR FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Fiscal Year	(2) Pledged Revenue	Debt Service				Coverage
		Principal	Interest	Total		
2014	\$ 174,374	\$ 17,445	\$ 20,055	\$ 37,500		4.65
2013	174,373	16,790	20,710	37,500		4.65
2012	96,200	-	20,709	20,709		4.65
2011	96,200	-	21,630	21,630		4.45

(1) No debt service payments were due prior to fiscal year 2011.

(2) Pledged revenues consist of lottery revenue deposited to the Lottery Fund net of operating expenses of the lottery.

STATE OF ARIZONA
SCHEDULE 20
PLEDGED-REVENUE COVERAGE
ARIZONA STATE UNIVERSITY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service					Coverage
		Net Payments					
		(Receipts) On					
		Principal	Interest	Swap Agreements	Total		
2014	\$ 1,161,306	\$ 44,770	\$ 43,623	\$ 3,507	\$ 91,900	12.64	
2013	1,047,661	33,965	41,477	3,631	79,073	13.25	
2012	977,828	31,215	39,560	3,612	74,387	13.15	
2011	876,770	28,595	35,051	3,791	67,437	13.00	
2010	782,727	26,975	33,003	3,716	63,694	12.29	
2009	702,797	21,555	21,896	3,692	47,143	14.91	
2008	638,707	19,135	16,682	2,448	38,265	16.69	
2007	580,102	17,125	21,339	186	38,650	15.01	
2006	505,890	14,625	17,313	-	31,938	15.84	
2005	458,177	11,205	16,307	-	27,512	16.65	

(1) Pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue.

STATE OF ARIZONA
SCHEDULE 21
PLEDGED-REVENUE COVERAGE
UNIVERSITY OF ARIZONA REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	(1)							
	(1), (2)	Direct	Net Revenue					
Fiscal	Gross	Operating	Available for	Debt Service				
Year	Revenues	Expenses	Debt Service	Principal	Interest	Total	Coverage	
2014	\$ 1,400,095	\$ 1,261,247	\$ 138,848	\$ 22,600	\$ 38,250	\$ 60,850	2.28	
2013	1,356,478	1,199,559	156,919	21,895	34,556	56,451	2.78	
2012	1,226,227	1,126,649	99,578	17,375	31,480	48,855	2.04	
2011	1,215,062	1,056,408	158,654	24,720	28,571	53,291	2.98	
2010	1,128,091	962,469	165,622	23,860	24,593	48,453	3.42	
2009	1,044,354	911,440	132,914	22,725	15,437	38,162	3.48	
2008	1,113,954	1,005,572	108,382	21,235	14,978	36,213	2.99	
2007	982,559	899,084	83,475	17,440	14,166	31,606	2.64	
2006	897,706	836,657	61,049	12,355	13,433	25,788	2.37	
2005	830,077	774,014	56,063	11,815	11,817	23,632	2.37	

(1) Gross Revenues and Direct Operating Expenses include current operating unrestricted funds only since these are the funds that are pledged for debt service payments under the System Revenue Bond Indentures. Also excluded from expenses is interest, depreciation, and amortization.

(2) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues, such as indirect cost recovery and certain investment income.

STATE OF ARIZONA
SCHEDULE 22
PLEDGED-REVENUE COVERAGE
NORTHERN ARIZONA UNIVERSITY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

(1), (2), (3)					
Fiscal	Gross	Debt Service			Coverage
Year	Revenues	Principal	Interest	Total	
2014	\$ 283,468	\$ 6,615	\$ 17,305	\$ 23,920	11.85
2013	263,733	6,610	15,474	22,084	11.94
2012	246,098	5,835	15,028	20,863	11.80
2011	220,538	24,310	14,712	39,022	5.65
2010	198,197	6,545	10,912	17,457	11.35
2009	164,877	6,570	7,383	13,953	11.82
2008	143,733	10,455	6,628	17,083	8.41
2007	136,100	9,610	5,943	15,553	8.75
2006	129,608	10,310	6,603	16,913	7.66
2005	110,981	10,065	6,060	16,125	6.88

(1) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees and certain auxiliary enterprise revenue, investment income and indirect cost recovery revenue.

(2) Fiscal year 2011 includes debt defeasance of \$18.7 million.

(2) Fiscal year 2013 gross revenue was revised by NAU in fiscal year 2014.

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STATE OF ARIZONA
SCHEDULE 23
DEMOGRAPHIC AND ECONOMIC STATISTICS
FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended December 31	Population (1,3)	Personal Income (3) (in thousands)	Per Capita Personal (2) Income	Unemployment Rate (4)
2013	6,626,624	\$ 245,070,457	\$ 36,983	7.3
2012	6,551,149	239,929,270	36,624	8.0
2011	6,468,796	229,719,194	35,512	8.6
2010	6,408,790	217,855,645	33,993	9.7
2009	6,343,154	215,635,941	33,995	10.5
2008	6,280,362	224,661,187	35,772	7.8
2007	6,167,681	221,175,458	35,860	4.1
2006	6,029,141	209,900,700	34,814	3.6
2005	5,839,077	189,280,632	32,416	4.2
2004	5,652,404	170,838,836	30,224	4.2

- (1) These are midyear population estimates of the U.S. Bureau of the Census.
(2) Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census.
(3) Population and personal income estimates were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.
(4) Unemployment rates were revised to reflect revisions made by the Office of Employment and Population Statistics.

Sources: U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures).
U.S. Bureau of the Census (also for population).
Office of Employment and Population Statistics at Arizona Department of Administration (for unemployment rate).

STATE OF ARIZONA
SCHEDULE 24
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	Calendar Year Ended December 31, 2013			Calendar Year Ended December 31, 2004		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
State of Arizona	49,278	1	1.64 %	49,147	1	1.76 %
Wal-Mart Stores Inc.	32,169	2	1.06	19,510	2	0.70
Banner Health	25,270	3	0.84	14,447	4	0.52
City of Phoenix	14,983	4	0.50	13,617	5	0.49
Wells Fargo	14,713	5	0.49	11,000	8	0.39
Maricopa County	12,698	6	0.42	15,218	3	0.55
Arizona State University	12,222	7	0.40	10,530	9	0.38
Intel Corp.	11,900	8	0.39	-	-	-
JP Morgan Chase & Co.	11,042	9	0.37	-	-	-
Bank of America	11,000	10	0.37	-	-	-
Honeywell International	-	-	-	12,000	6	0.43
U.S. Postal Service	-	-	-	11,406	7	0.41
Raytheon Co.	-	-	-	10,300	10	0.37
Total	195,275		6.48 %	167,175		6.00 %

Source: Arizona State University CAFR 2014.

STATE OF ARIZONA
SCHEDULE 25
STATE EMPLOYEES BY FUNCTION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2014

	Fiscal Year					
	2014	2013	2012	2011	2010	2009
FULL-TIME EQUIVALENT EMPLOYEES						
General government:						
Lottery	98.8	97.8	104.0	104.0	104.0	110.0
Arizona State Retirement System	246.9	233.9	236.0	236.0	236.0	236.0
Department of Revenue	861.8	860.3	935.0	935.0	863.0	1,164.0
All other	2,229.6	2,214.4	2,427.6	2,646.5	2,746.5	2,989.2
Health and welfare:						
Department of Economic Security	5,654.1	5,453.5	3,726.0	3,726.0	4,201.0	4,201.0
Arizona Health Care Cost Containment System	2,217.3	2,217.3	1,407.3	1,423.0	1,484.0	1,635.8
Department of Health Services	1,176.7	1,176.7	1,513.3	1,513.3	1,538.6	1,699.1
All other	946.6	946.6	1,098.5	954.5	966.5	981.5
Inspection and regulation	1,643.9	1,649.8	1,801.2	1,807.7	1,820.7	1,943.1
Education:						
Universities	15,607.7	15,478.7	16,964.2	15,754.2	15,664.5	17,353.5
All other	838.9	834.4	886.5	896.0	972.4	1,003.4
Protection and safety:						
Department of Corrections	9,384.0	10,118.2	10,015.2	10,015.2	9,755.9	9,932.5
Department of Juvenile Corrections	738.5	738.5	1,001.7	1,001.7	1,050.7	1,163.7
Department of Public Safety	1,904.7	1,903.7	2,139.8	2,081.8	2,099.8	2,114.8
All other	95.6	90.1	112.6	117.9	118.4	134.9
Department of Transportation	4,548.0	4,548.0	4,548.0	4,548.0	4,548.0	4,748.0
Natural resources	716.5	716.5	930.2	937.2	956.7	1,009.7
Total	48,909.6	49,278.4	49,847.1	48,698.0	49,126.7	52,420.2

(1) Full-time equivalent employees are categorized by the function of government that their respective agency generally serves. Information is not available to distinguish between governmental, business-type, or fiduciary activities.

Source: The Executive Budget (Detail). Includes only those positions funded by appropriated funds approved in the Executive Budget.

Fiscal Year			
2008	2007	2006	2005
110.0	110.0	110.0	110.0
235.0	231.0	221.0	199.0
1,164.0	1,148.0	1,146.0	1,024.0
2,999.2	2,957.5	2,898.6	2,944.3
4,099.2	3,874.4	3,953.7	3,902.7
1,629.0	1,617.3	1,583.5	1,574.5
1,702.1	1,680.4	1,735.5	1,734.5
981.5	859.9	858.5	924.2
1,930.1	1,853.7	1,827.3	1,818.5
17,138.8	16,975.0	16,419.5	16,027.5
1,001.4	969.0	913.8	949.5
9,755.9	9,726.9	9,726.9	10,322.4
1,163.7	1,195.7	1,160.5	1,151.5
2,108.8	2,065.8	1,901.8	1,872.0
133.9	125.4	127.4	120.6
4,744.0	4,703.5	4,649.0	4,626.0
1,007.7	967.3	926.9	903.2
<u>51,904.3</u>	<u>51,060.8</u>	<u>50,159.9</u>	<u>50,204.4</u>

STATE OF ARIZONA
SCHEDULE 26
OPERATING INDICATORS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2014

	Fiscal Year						
	2014	2013	2012	2011	2010	2009	2008
<u>FUNCTIONS/PROGRAMS</u>							
General government:							
Number of tax returns received (in millions)	5.7	5.5	5.4	5.4	5.2	5.7	5.6
Health and welfare:							
Arizona Health Care Cost Containment System membership (2)	1,508,690	1,318,650	1,314,210	1,392,810	1,392,420	1,282,910	1,136,585
Average monthly number of recipients of temporary assistance for needy families	N/A	38,353	39,194	44,842	82,127	83,969	80,221
Average monthly number of persons receiving food stamp benefits	N/A	1,100,920	1,123,068	1,049,522	986,413	752,772	600,549
Inspection and regulation:							
Nonfatal occupational injuries and illnesses:							
Total recordable cases (in thousands) (3)	N/A	N/A	67.9	66.4	75.2	84.0	101.8
Incident rate per 100 full-time workers (3)	N/A	N/A	3.5	3.5	3.7	3.9	4.6
Education:							
Public school enrollment, grades K-12 (4)	1,084,276	1,077,703	1,066,740	1,062,200	1,068,987	1,062,618	1,132,963
Protection and safety:							
Number of miles patrolled by the Highway Patrol	19,321,168	18,914,572	19,465,944	19,953,766	21,275,292	21,987,920	21,881,034
State prison adult inmate population (5)	41,773	40,273	39,877	40,181	40,477	39,628	38,897
Transportation:							
Number of registered vehicles (6)	7,453,046	7,180,797	6,823,906	6,839,659	6,740,536	6,692,834	6,733,610
Number of driver licenses issued (7)	1,188,903	1,159,695	1,184,630	1,196,675	1,241,977	1,246,358	1,200,227
Natural resources:							
Game and Fish Department's license and tag sales (8)	N/A	848,617	815,488	826,385	874,442	874,363	896,143
Universities:							
University full-time equivalent students (9)	141,264	136,884	134,051	129,653	122,734	118,743	113,092
Unemployment compensation:							
Number of initial unemployment claims filed	257,951	261,418	288,097	311,472	363,189	396,755	226,772
Industrial Commission special fund:							
No-insurance awards issued	1,303	1,618	1,365	882	1,781	2,244	2,748
Number of vocational rehabilitation awards issued	170	136	125	132	128	103	118
Lottery:							
Total lottery sales (in millions)	\$ 723.9	\$ 692.9	\$ 646.7	\$ 583.5	\$ 551.5	\$ 484.5	\$ 472.9
Other business-type activities:							
Arizona Health Care Cost Containment System's Healthcare Group membership (10)	-	6,370	7,080	8,260	10,760	14,560	21,646

N/A = Not available

- (1) Some figures may represent time periods other than a fiscal year (such as an academic or calendar year), as indicated in the notes below.
- (2) Approximate number of members enrolled as of June 1. Excludes membership in the Healthcare Group, which is listed separately as other business-type activities, beginning in fiscal year 2002.
- (3) Numbers represent total recordable cases and incident rates for the calendar year ended December 31. The fiscal years above contain data for the calendar year that ends during that fiscal year. For example, fiscal year 2013 contains data for the calendar year ending December 31, 2012. One hundred full-time workers represent 200,000 hours worked (100 times 40 hours per week times 50 weeks per year).
- (4) These enrollment counts represent a head count of all active enrollments on October 1st of each school year. The fiscal years above contain data for the academic year that occurs during that fiscal year. For example, fiscal year 2014 contains data from the October 1, 2013 enrollment figures. Starting with the 2008-09 school year, due to federal requirements, new business rules were used to calculate enrollment, so that counts are unduplicated. Prior to this, the counts are not unduplicated counts; concurrently enrolled students are counted as having an active membership in each school. Also, there was a change in data collection in 2003. From 2003 to 2008, concurrent enrollments in technology schools are included, which may additionally overstate aggregated enrollment figures.
- (5) Beginning in 2007, the state prison inmate population on the 2 Year Prison Population Trend Report excludes the inmate count from the county jail. For fiscal years 2006 and prior, the number includes both the county jail and the outside count of inmates. Fiscal year 2014 total is as of June 30.
- (6) Count represents the total number of vehicles registered as of the end of the fiscal year.
- (7) Count represents the number of driver licenses issued during that fiscal year, beginning July 1 and ending June 30.
- (8) Numbers represent sales for licenses, stamps, and tags for the calendar year ended December 31. The fiscal years above contain data for the calendar year that ends during that fiscal year. For example, fiscal year 2014 contains data for the calendar year ending December 31, 2013.
- (9) Enrollment figures represent the number of full-time equivalent students for the fall semester. The fiscal years above contain data for the fall semester that occurs during that fiscal year. For example, fiscal year 2014 contains data for the fall 2013 semester. These figures are generated by calculating one full-time equivalent student for each 15 student credit hours produced in lower-division undergraduate courses, each 12 student credit hours produced in upper-division undergraduate courses, and each 10 student credit hours produced in graduate courses.
- (10) Approximate number of members enrolled as of June 1. Healthcare Group ceased operations on December 31, 2013.

Sources: The State Departments of Transportation, Public Safety, Corrections, Education, Game and Fish, Economic Security, Revenue, the Industrial Commission of Arizona, Arizona Lottery, Arizona Health Care Cost Containment System, Arizona Board of Regents, and the U.S. Department of Labor.

Fiscal Year		
2007	2006	2005
5.5	5.5	6.0
1,075,125	1,065,444	1,075,873
82,408	93,553	105,517
537,072	546,424	546,369
99.4	97.0	87.1
4.6	4.9	4.7
1,106,207	1,084,247	1,043,704
20,282,212	19,703,282	19,922,704
37,088	34,864	32,710
6,608,726	6,318,402	5,945,131
1,266,973	1,205,068	1,158,223
940,223	897,159	808,055
110,580	107,765	104,685
185,397	161,869	200,282
3,265	2,744	3,281
133	124	102
\$ 462.2	\$ 468.7	\$ 397.6
26,914	21,600	14,626

STATE OF ARIZONA
SCHEDULE 27
CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2014

	Fiscal Year						
	2014	2013	2012	2011	2010	2009	2008
<u>FUNCTIONS/PROGRAMS</u>							
Protection and safety:							
Number of adult prison facilities (3)	10	10	10	10	10	10	10
Transportation:							
Public road mileage (center lane miles) (2)	6,800	6,751	6,751	6,722	6,789	6,753	6,785
Number of bridges (2)	4,787	4,754	4,754	4,741	4,700	4,648	4,637
Natural resources:							
State Trust acres	9,223,617	9,223,873	9,302,256	9,252,495	9,258,071	9,259,296	9,260,253
Universities:							
Number of facilities (4)	1,212	1,705	1,711	1,740	1,737	1,670	1,669
Gross square feet (in thousands) (4)	44,658	41,141	39,933	37,967	37,589	37,186	36,000

N/A = Not available

Note: No capital asset indicators are available for the general government, health and welfare, inspection and regulation, education, Industrial Commission special fund, and other business-type activity functions.

- (1) Ten years of data may not be available for some statistics, but will be accumulated over time. Also, some figures may represent time periods other than a fiscal year (such as a calendar year), as indicated in the notes below.
- (2) These are the number of center lane miles and bridges that the Arizona Department of Transportation accounts for under the modified approach, which is discussed in the Required Supplementary Information portion of this report.
- (3) The Arizona Department of Corrections also contracts with private prison facilities to provide custody and treatment.
- (4) In addition to academic/support facilities, auxiliary enterprise facilities are also reported. These would include essentially self-supporting entities, such as residence halls and parking structures.

Sources: The State Departments of Transportation, Land, Corrections, and the Universities.

Fiscal Year		
2007	2006	2005
10	10	10
6,817	6,922	6,816
4,648	4,676	4,608
9,262,781	9,267,377	9,269,723
1,663	1,002	N/A
34,946	20,154	N/A

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